

LEGAL SERVICES CORPORATION  
BOARD OF DIRECTORS

FINANCE COMMITTEE

OPEN MEETING

Friday, October 28, 2005

3:36 p.m.

The Grove Hotel  
245 South Capitol Boulevard  
Boise, Idaho

COMMITTEE MEMBERS PRESENT:

Herbert S. Garten, Acting Committee Chairman  
Thomas A. Fuentes  
Florentino A. Subia  
Frank B. Strickland, *ex officio*

OTHER MEMBERS PRESENT

Lillian R. BeVier  
David Hall  
Michael D. McKay  
Thomas R. Meites  
Bernice Phillips

OTHERS PRESENT:

Helaine M. Barnett, President, LSC  
Tom Polgar, Gov. Relations, LSC  
Linda Perle, CLASP  
Don Saunders, NLADA  
David L. Richardson, Treasurer, LSC

Patricia Batie, Manager, Board Operations, LSC  
Sarah Singleton, Board Nominee, LSC  
Victor Fortuno, General Counsel, LSC  
Mattie Condray, Sr. Ass't. General Counsel, LSC  
Charles Jeffress, Chief Adm. Officer, LSC  
Kirt West, Inspector General, LSC  
Laurie Tarantowicz, Legal Counsel, LSC  
David Maddox, Asst. Inspector General, LSC  
Karen Sarjeant, V.P. Programs and Compliance, LSC

## C O N T E N T S

	PAGE
Approval of Agenda	4
Approval of the Committee's meeting minutes of of September 30, 2005	4
Presentation of the Fiscal Year 2005 Financial Report	5
Consider and Act on FY 2005 Consolidated Operating Budget Reallocation, Resolution #2005-010	15
Report on Status of FY 2006 Appropriation	16
Consider and Act on Temporary Operating Budget for FY 2006, Resolution #2005-011	24
Adopt resolution on the FY 2007 Budget Mark reflecting action taken at the September 30, 2005, Finance Committee meeting, Resolution #2005-012	28
Consider and Act on limits for individual employee savings plans:	
a. Contributions to health savings accounts, Resolution #2005-013	62
b. Distributions from LSC's Mutual of America savings plan, Resolution #2005-014	63
c. Distributions from LSC's Diversified Investment Advisers savings plan, Resolution #2005-015	63
Consider and Act on a process for the distribution of any emergency funds for hurricane relief which may be appropriated by Congress, Resolution #2005-016	64
Consider and act on other business	65
Adjournment of meeting	65
MOTIONS: Pages 4 (2), 15, 27, 60, 61, 63 (3), 65	

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

(3:36 p.m.)

1  
2  
3 MR. GARTEN: Good afternoon.

4 I'm Herb Garten, Acting Chair of the Finance  
5 Committee, and I will call the committee meeting to  
6 order at this time.

7 Our first item on the agenda is the approval  
8 of the agenda, and I will entertain a motion to accept  
9 the agenda.

## M O T I O N

10  
11 MR. FUENTES: So moved.

12 MR. GARTEN: Do I have a second?

13 MS. BEVIER: Second.

14 MR. GARTEN: All in favor, aye, please.

15 (Chorus of ayes.)

16 MR. GARTEN: Number two, the approval of the  
17 minutes of the committee's meeting of September 30,  
18 2005.

## M O T I O N

19  
20 MR. FUENTES: Move the approval.

21 MS. BEVIER: Second.

22 MR. GARTEN: All right.

1 I have one small correction, and that is the  
2 reference on page 36 to William B. Whitehurst, American  
3 Bar Association. The correct name of the committee is  
4 the Standing Committee on Legal Aid and Indigent  
5 Defendants.

6 It's listed correctly on page 38.

7 So, subject to that --

8 MR. FUENTES: The mover accepts the  
9 correction.

10 MR. GARTEN: All right.

11 MR. FUENTES: Second.

12 MR. GARTEN: All in favor?

13 (Chorus of ayes.)

14 MR. GARTEN: It passes.

15 The next item on the agenda is the  
16 presentation of the fiscal 2005 financial report.

17 Are you ready to make the report, Mr.  
18 Jeffress?

19 MR. JEFFRESS: Yes, Mr. Chairman.

20 MR. GARTEN: Will you identify yourself and  
21 proceed, please?

22 MR. JEFFRESS: Yes, sir. Thank you.

1 Charles Jeffress, the chief administrative  
2 officer for the Legal Services Corporation, and  
3 assisting me is the treasurer of the corporation, David  
4 Richardson.

5 We handed to you just before the meeting a  
6 copy of the information that contains the  
7 end-of-the-year financial information for fiscal year  
8 2005, and I will apologize to you all for not getting  
9 it to you in advance.

10 As you know, our fiscal year closes on  
11 September 30th.

12 In order to get the information to close out  
13 the year, get all the bills in, agree upon the numbers  
14 and get the information to you, it will be very  
15 difficult to get you information by the end of October.

16 So, if we continue with the scheduled October  
17 board meetings, as we are scheduled to again next year,  
18 you should anticipate that we will get you the  
19 end-of-the-year information, but we probably will have  
20 to bring it to you at this meeting. It will be very  
21 difficult to close out the year and get you the  
22 information two weeks ahead of time.

1           So, with that caveat -- I see some quizzical  
2 looks. Should I go through that again?

3           Are we okay on that?

4           MR. GARTEN: You can proceed.

5           MR. JEFFRESS: Okay. All right.

6           So, this information is the September  
7 financial report, representing the end of the fiscal  
8 year of 2005.

9           Just briefly touching on the points in the  
10 memo, the management administration accounts for the  
11 fiscal year 2005 -- we were under budget by 12 percent,  
12 \$1.759 million.

13           This is the same amount as we reported to you  
14 in Monterey, and as in our July and August  
15 expectations, that the carryover at the end of the year  
16 would be approximately this amount, and that \$1.75  
17 million, as has been done in the past, will be  
18 reprogrammed for expenses in fiscal year 2006.

19           So you know where that under-spending arises  
20 from, we note that more than half of the total  
21 variance, more than half of the unspent monies come  
22 from this compensation and benefits line item as a

1 result of vacancies in personnel during the course of  
2 the year.

3 In addition to the salary line item, travel,  
4 consulting, and other operating expenses were other  
5 areas in which we managed the money frugally this year,  
6 and managed to have less spending than what we had  
7 anticipated.

8 There are two lines items in our budget where  
9 we over-spent what we had anticipated, and I call these  
10 to your attention, in keeping with previous board  
11 requests that items be brought to your attention when  
12 they are over \$5,000.

13 Within the Office of Legal Affairs, our  
14 consulting expenses, which are for our outside  
15 attorneys, exceeded our budgeted amount by \$104,912.  
16 However, Office of Legal Affairs has such sufficient  
17 funds in other line items within their office to cover  
18 that overage. So, we will be transferring money from  
19 the salaries and compensation line items within Legal  
20 Affairs and the temporary employee line item within  
21 Legal Affairs, the other operating expenses line item,  
22 and a little bit out of the travel line item to make up



1 that \$104,000 shortfall in the consulting line item  
2 within Legal Affairs.

3 In the Financial Services Office, we also have  
4 one line item where we were over budget. We were over  
5 budget by \$17,000 as a result of a commission paid to  
6 the realtor when we sublet space on the first floor.  
7 As you will remember, in Monterey, we talked about  
8 subletting space. We were successful in that. We had  
9 not anticipated that, so the commission was not  
10 budgeted for. However, Financial Services has  
11 sufficient funds in our other operating expenses line  
12 item to pay this fee. So, we propose to transfer the  
13 money from the other operating expenses line item to  
14 consulting in order to cover that overage.

15 Of the other amounts -- and I might get you to  
16 refer to some of the attached pages to follow these.  
17 Page 43A lists the spending and the other line items,  
18 the other accounts.

19 The technology initiatives account you see on  
20 page 43A, item number 4 -- that shows 1.2 million that  
21 has not been spent.

22 Actually, that money has been committed. We

1 have made decisions on where to allocate those funds,  
2 to which grantees.

3           Since the contracts have not been signed, we  
4 can't show this money as having been spent at the  
5 moment, but that money has been allocated. I expect  
6 the contracts to be drawn next month and those funds  
7 awarded.

8           MR. GARTEN: Let me ask you a question on  
9 that.

10           MR. JEFFRESS: Yes, sir.

11           MR. GARTEN: You're ready now for your outside  
12 independent certified public accountant to audit the  
13 books and records.

14           MR. JEFFRESS: Correct.

15           MR. GARTEN: In the course of that, don't they  
16 accrue the additional amount that you say you're  
17 committed to?

18           MR. JEFFRESS: They will show this in a  
19 category -- I believe it's deferred revenue.

20           David, do you want to address that?

21           MR. RICHARDSON: That's correct. It goes to a  
22 deferred revenue line.

1           We don't accrue the expense, because we don't  
2 have a contract in place yet.

3           It's just we've decided that we're going to  
4 give it to these particular grantees.

5           So, until the contract, as agreed upon as to  
6 the goals and the milestones that are met in the  
7 contract, we will not be expensing the funds at this  
8 point.

9           MR. GARTEN: All right.

10          So, they, your accountants, outside  
11 accountants, will be reflecting that commitment on the  
12 statement in some way.

13          MR. RICHARDSON: It will be shown as deferred  
14 revenue on the statement.

15          MR. GARTEN: Okay.

16          MR. JEFFRESS: Right. And when we report it  
17 to Congress, there will be a footnote indicating  
18 exactly what happened to it, because it will be gone by  
19 the time Congress looks at our budget.

20          MR. GARTEN: All right.

21          Proceed.

22          MR. JEFFRESS: All right.

1           The other -- on page 43A, the other line items  
2 there, grants from other funds, line item number 3, has  
3 a remaining balance of \$155,972. That remains  
4 available for disaster assistance. That's what we've  
5 used it for in the past. We will carry that forward  
6 into 2006 for that purpose.

7           And the U.S. Court of Veterans Appeals funds,  
8 number 2, has a \$37,000 variance. That will be carried  
9 forward in the next year for administration of those  
10 grants.

11           The \$25,000 that was left over in basic field  
12 programs was held for auditing to grantees where the  
13 audit had not yet been completed, and that money will  
14 be used to complete those audits, as well.

15           We can go to the next page 43B.

16           I won't go through this page but just mention  
17 to you that shows you your -- our spending by office  
18 for the fiscal year.

19           If you go to page 43C, the next page, it shows  
20 the loan repayment assistance program on page 43C, a  
21 million dollars, and I guess that hasn't yet been  
22 discussed, but those programs that are going to

1 participate in this have been identified. We're  
2 accepting applications from individuals to receive the  
3 loan repayment assistance, and we also expect those  
4 checks to be cut or these commitments to be made in  
5 November.

6           So, while it shows a million dollars carried  
7 forward, in fact, those funds will be committed  
8 shortly, as well.

9           And the final line item there on 43C is for  
10 the Inspector General, and that shows a \$327,000 amount  
11 left over to be carried forward, about 12 percent.

12           MR. GARTEN: Are there any unpaid amounts that  
13 need to be noted for the Inspector General that we  
14 should be aware of?

15           MR. JEFFRESS: If you will notice, the last  
16 column on the right-hand side, we show encumbrances,  
17 and there is an \$11,200 encumbrance showing from 2005  
18 for the Inspector General.

19           So, of that \$327,000, there is an \$11,000  
20 encumbrance against that.

21           MR. RICHARDSON: The encumbrances are  
22 contracts that they have written, and the services have

1 not yet been performed completely, so that will roll  
2 over into the next year, and if I could, as we're  
3 looking here, 43B, when you're looking at the  
4 management and administration, this year's expenses  
5 were \$12,697,000. Last year's expenses was  
6 \$12,780,000.

7 So, we actually spent \$82,500 less money this  
8 year than we did in 2004.

9 On the next page, the same comparison is given  
10 for the Inspector General's office, and with  
11 their -- with the new IG and their ramping up their  
12 operations, in 2005, they have spent 2.4 million, and  
13 last year, it was 2.7.

14 So, they're actually under budget, also.

15 MR. GARTEN: Under budget?

16 MR. RICHARDSON: Under last year.

17 MR. JEFFRESS: Under last year.

18 MR. GARTEN: Okay. We understand that.

19 MR. JEFFRESS: And then the last two pages in  
20 the attachment, again, just give you spending broken  
21 out by office and broken out by category, bottom line  
22 numbers being the same.

1           While that is the report, in terms of our  
2     spending, as I say, we are under budget, and the single  
3     biggest part of that is the salaries line item where  
4     the vacancies occurred.

5           Because we have these two items where  
6     transfers need to be made to cover the over-spending in  
7     the Office of Legal Affairs and in the Office of  
8     Financial Services, we need your approval to revise our  
9     consolidated operating budget for the year 2005, which  
10    just ended, to show these transfers of money to cover  
11    the overages.

12           So, you will see on page 44 of your attachment  
13    is a resolution that's been prepared that has the  
14    numbers reflecting the budget as it should be, with  
15    these transfers.

16           The back-up page, 44A, shows you exactly where  
17    the transfers are coming from in terms of which line  
18    items are being decreased to cover the overages and  
19    which line items are being increased.

20                           M O T I O N

21           MR. FUENTES:   Accept the resolution as  
22    presented.

1           MR. GARTEN: All right. That's the resolution  
2 appearing on page 44, with the attachment.

3           MS. BEVIER: Second.

4           MR. GARTEN: All right.

5           Any further discussion?

6           If none, all in favor, aye.

7           (Chorus of ayes.)

8           MR. GARTEN: Okay.

9           MR. JEFFRESS: Thank you.

10          MS. BEVIER: Just a minute. I think we moved  
11 to recommend the resolution to the board tomorrow. We  
12 don't resolve it ourselves.

13          So --

14          MR. GARTEN: That's correct.

15          MS. BEVIER: I'm sure that's what the motion  
16 meant. It's certainly what the second meant, and I'm  
17 sure it's what the vote meant.

18          MR. JEFFRESS: I'll be more careful what I ask  
19 for in the future, Mr. Chairman.

20          The next item is the report on the status of  
21 the FY '06 appropriation, and let me ask Tom Polgar to  
22 come up for that.



1           MR. POLGAR: My suitcase is here, too, but  
2 unlike Charles, I didn't go run upstairs and put a tie  
3 on.

4           For the record, my name is Tom Polgar. I'm  
5 the director of government relations and public affairs  
6 for the corporation.

7           For those of you who were at the Finance  
8 Committee meeting on September 30th, nothing has  
9 essentially changed in the last four weeks.

10          The Senate passed a bill, the FY '05  
11 commerce-justice appropriations bill, in the second  
12 week of September.

13          They started staff-level negotiations -- well,  
14 I should say, before I get to that, during Senate floor  
15 consideration of the bill, an amendment by Senator  
16 Harkin was adopted which raised the appropriation for  
17 the corporation for '06 to 358.5 million, which was  
18 approximately 5 million less than the amount actually  
19 recommended by the board last January.

20          So, we're going into a conference with a  
21 Senate number of 358 million and change, and the House  
22 number of 330.8 million, which is the same as the '05

1 appropriation.

2           The staff of the two committees started  
3 meeting the week after Columbus Day, and they've been  
4 moving along at a relaxed, or measured -- however you  
5 want to characterize it -- pace.

6           Part of the reason it appears that they're  
7 taking their time is because there are some issues that  
8 they're trying to avoid resolving until they see what  
9 the administration is going to propose with respect to  
10 the supplemental for Hurricanes Rita and Katrina and  
11 possibly now Wilma.

12           That proposed supplemental was expected to be  
13 out in the first week of October.

14           It's not out yet.

15           I was on the phone with OMB as recently as  
16 early this week, and although we were on the phone, so  
17 I couldn't see anything, I sort of got a shrug of the  
18 shoulders when I asked when it was coming out.

19           So, I mean there's rumors it could be next  
20 week, but we really don't know.

21           This has a small impact with respect to LSC,  
22 because of the 358 million that the Senate

1 appropriated, 8 million was earmarked for -- to address  
2 the delivery of services and the repair of offices for  
3 our LSC grantees, and all things being equal, the  
4 appropriators would like to put that money in the  
5 supplemental, not in the -- or whatever amount is  
6 agreed to for LSC -- not in the '06 bill, because it's  
7 expected that Budget Act ceilings will be waived for  
8 the supplemental, but they won't be waived for the  
9 regular '06 bill.

10           There are several other provisions in the  
11 regular '06 bill that are Katrina-related, and those  
12 issues are -- until those issues are resolved or at  
13 least the committee has some idea of how they will be  
14 resolved, I wouldn't expect the '06 bill to move  
15 terribly quickly.

16           As to the status of the talks between the  
17 House and the Senate as they relate to LSC, basically  
18 all we are hearing is they have met -- they have talked  
19 about it once or twice, and there has been no  
20 resolution, and they're being pretty frugal with giving  
21 out information beyond that.

22           On the supplemental, we've been in constant

1 communication with the Office of Management and Budget  
2 about the prospects of getting money, both for services  
3 to Katrina -- to people affected by Katrina and for  
4 some infrastructure costs, particularly with respect to  
5 the Gulf coast and New Orleans offices that were  
6 impacted, and those talks are ongoing, and we haven't  
7 been turned away, but nobody's said yes to anything yet  
8 either.

9           So, that's pretty much the status of that, and  
10 I'm happy to answer any questions.

11           MR. GARTEN: You seemed to indicate at the  
12 September meeting there would be a compromise for the  
13 Senate recommendation.

14           Did I hear that correctly?

15           MR. POLGAR: Yeah.

16           At one point, the House had -- or House staff,  
17 to be more exact, because I don't think they had spoken  
18 to any member -- had tossed out the prospect of  
19 splitting the difference, but that was a  
20 very -- between the House and Senate numbers -- but  
21 that was a very preliminary comment by House staff, and  
22 I'm not sure it's -- how much in play that is.

1           Part of the -- the House appropriators are  
2 under tremendous pressure from their leadership to hold  
3 the cost of the '06 bills down, and that's making life  
4 very difficult, although I just noticed that the House  
5 did a reversal with respect to the energy and water  
6 appropriation bill, and whereas before they were saying  
7 only the House number would apply, they just agreed  
8 earlier this week to split the difference between the  
9 House and Senate bills.

10           So, they may be gravitating back to the old  
11 practice of, if not splitting the difference on  
12 everything precisely, at least sort of heading to that  
13 resolution on a lot of issues, but it's really not  
14 clear at this point where they're going to end up.

15           MR. GARTEN: But it is clear that the Senate  
16 appropriations recommendation would be greater than the  
17 eventual amount that it is going to be?

18           MR. POLGAR: Yeah. I think it's unlikely that  
19 the House would recede to the Senate and give the  
20 Senate 100 percent of what it passed, that's correct.

21           MR. GARTEN: Any questions?

22           MR. MEITES: I ask the same dumb question

1 every year.

2           What time period are we talking about when we  
3 will actually spend this money?

4           MR. POLGAR: Well, if you're asking when  
5 they're going to agree to it --

6           MR. MEITES: No, no. I'm asking what period  
7 of time does this money cover?

8           MR. POLGAR: With respect to the amounts  
9 appropriate for the basic field, they work off a  
10 calendar year.

11           So, even though FY '06 is October 1 through  
12 September 30th for most of the world --

13           MR. MEITES: What year? October 1 of what  
14 year?

15           MR. JEFFRESS: We're already spending the  
16 money.

17           MR. MEITES: '06 is '05-'06.

18           MR. POLGAR: Yeah, '06 is '05-'06. Fiscal  
19 year '06 is October 1, '05, to September 30, '06,  
20 except with respect to the large part of our money,  
21 which is the basic field grants, and for that, the  
22 fiscal year and the calendar year coincide. So, it's

1 January 1, '06, to December 31, '06.

2 So, on the field level, nothing is being spent  
3 yet. They're still consuming their '05 funds.

4 For the rest of us, the OIG, management, we're  
5 already eating into the '06 dollars.

6 MR. MEITES: How do the numbers that you've  
7 been talking about compare to what we actually got for  
8 fiscal year '05?

9 MR. POLGAR: It's all pretty close, would be  
10 my answer.

11 There are differences of 100,000 here --

12 MR. MEITES: What was the appropriation, final  
13 appropriation for the current -- for the fiscal year  
14 that ended September 30th?

15 MR. POLGAR: It was 330.8 million. It was  
16 exactly what the House passed for '06.

17 MR. JEFFRESS: If you want to see that number,  
18 on page 47 of your book, the fiscal year 2005  
19 appropriation is listed, and that is the same bottom  
20 line as what the House appropriation is at the moment.  
21 That's page 47 of your book. So, that gives you your  
22 fiscal year 2005 appropriation, and it's the same as

1 the House level.

2 MR. GARTEN: So, we have about a \$28 million  
3 spread --

4 MR. POLGAR: That's correct.

5 MR. GARTEN: -- between the House version and  
6 the Senate version, and if we split it, as seemed to be  
7 an indication, our budget would be \$372 million,  
8 approximately.

9 MR. POLGAR: 345 million, approximately.

10 MR. GARTEN: The difference between  
11 330 -- yes, you're correct.

12 MR. POLGAR: The exact split, because I've  
13 already calculated it, is 344.6.

14 MR. GARTEN: It sounds like a nice round  
15 number.

16 Do you have any other questions?

17 Okay.

18 Let's move on to item number 6, consider and  
19 act on temporary operating budget for fiscal year 2006,  
20 which would be the year ending September 30th.

21 MR. JEFFRESS: Thank you, Mr. Chairman.

22 In July, you recommended to the board and the



1 board authorized in a resolution a temporary operating  
2 budget for fiscal year '06. That's why we're able to  
3 actually spend money and have been able to spend since  
4 the 1st of October. Since July, we've learned a few  
5 more things.

6 We know more about what the Senate is going to  
7 do, and we know exactly what our carry-forward is.

8 Since we know those two items, we felt it  
9 appropriate to bring back to you a revised temporary  
10 operating budget that incorporates that knowledge and  
11 gives you a break-out of how that will be divided  
12 across our offices.

13 When the board authorized this level of  
14 spending in July, at that point, it was so far ahead  
15 and seemed so tentative, we did not break it out across  
16 our offices.

17 We now have broken that out across our  
18 offices.

19 So, what you will see in your hand-out, the  
20 materials that you got here just before the meeting --

21 MR. GARTEN: That's page 45.

22 MR. JEFFRESS: Thank you.

1           Page 45 would be a proposed resolution, and  
2 45A and 45B are the back-ups that show how the money  
3 would be distributed.

4           Just a word of note: In preparing the  
5 proposed -- this temporary operating budget for '06,  
6 since we do not know what the final result would be, we  
7 took the most conservative -- the lowest, that  
8 is -- number from the House or the Senate, whichever  
9 was lower in each of these line items, to propose this  
10 budget. So, the budget before you is what we believe  
11 would be the least possible budget that we would  
12 receive.

13           It would be my hope that if the House and  
14 Senate split the difference, there would be more money  
15 available to us, so we would come back to you for a  
16 permanent consolidated operating budget after that  
17 appropriation passes that might be larger than this,  
18 but for the moment, we have taken the lowest  
19 recommendation of the House or the Senate, added in our  
20 carryover, to develop this proposed temporary operating  
21 budget for '06 that you have before you.

22           So, the bottom line there that we would ask

1 the committee to recommend this resolution to the board  
2 would be for a temporary operating budget for fiscal  
3 year 2006 of \$324,302,000.

4 MR. GARTEN: Okay.

5 M O T I O N

6 MR. FUENTES: Mr. Chairman, move  
7 recommendation to the full board of the resolution as  
8 presented.

9 MS. BEVIER: Second.

10 MR. GARTEN: Okay.

11 Any further discussion?

12 MR. JEFFRESS: Mr. Chairman, before you vote,  
13 I said 324.

14 That was the appropriation level without the  
15 carry forward.

16 The total, actually, including carry forward  
17 is \$330,286,863.

18 It's in the handout, 45A, the far right  
19 column.

20 MR. GARTEN: Okay.

21 I have a second.

22 No further discussion.

1 All in favor, aye.

2 (Chorus of ayes.)

3 MR. GARTEN: All right.

4 Move on.

5 MR. JEFFRESS: The next item, Mr. Chairman, is  
6 the Finance Committee, at your September 30th meeting,  
7 heard management recommendation and the recommendations  
8 from the public for proposed budget mark to Congress  
9 for fiscal year '07. You heard that, and voted on a  
10 recommendation of \$411.8 million. We did not, at that  
11 time, have a resolution for you formally to recommend  
12 to the board. So, we have taken your -- the amount  
13 that you agreed to, put it in the form of a resolution,  
14 which is on page 46 of your book, and you've already  
15 seen the -- what's on page 47 in terms of the back-up  
16 for that, but since there was not officially a vote  
17 taken at the September 30 Finance Committee  
18 recommending this to the board, we offer it for your  
19 consideration.

20 MR. GARTEN: That final recommendation  
21 included a million dollars for that emergency hurricane  
22 relief --

1 MR. JEFFRESS: That's correct, Mr. Chairman.

2 MR. GARTEN: -- included in this figure.

3 MR. JEFFRESS: Management's recommendation is  
4 \$419.8 million, and you all added a million dollars to  
5 that to provide for emergency relief fund.

6 MR. GARTEN: I had promised at that meeting  
7 that I would like to discuss further the recommendation  
8 for the Office of Inspector General, and I do have some  
9 questions with regard to that, and Kirt, would you like  
10 to appear before us?

11 I do note that the 2005 fiscal year, your  
12 actual expenses were 2.4 million, approximately, and  
13 that you were under budget by \$327,000. We don't know  
14 what 2006 is going to bring, but do you have any  
15 projections of what it will look like?

16 MR. WEST: Mr. Chairman, Kirt West, Inspector  
17 General, for the record.

18 It's really hard, in light of not knowing what  
19 Congress is going to pass for budget. It's very  
20 difficult.

21 I can tell you there are two things that are  
22 quite -- that were changed from 2004.

1           One is that we wound down our mapping  
2 project --

3           MR. GARTEN: You meant 2005.

4           MR. WEST: Yeah, the difference between 2004  
5 and 2005, what the difference was in terms of -- you  
6 notice the carry over, which was -- there was a  
7 significant drop in our expenses using consultants on a  
8 mapping project, which just about had wound up. I  
9 believe it was a couple hundred thousand dollar  
10 difference less that we spent on consulting.

11           A lot more money was spent on staff. We, like  
12 management administration, had difficulty filling a  
13 particular position, which is another attorney  
14 position, and we are re-interviewing and hopefully will  
15 identify someone in the next couple of weeks. So, that  
16 also affected our carry-over.

17           One other thing.

18           If you'll recall, in past -- if you look in  
19 the past few months, each month our variance has been  
20 going down. It was in the 15-percent range, and it was  
21 in the 14-percent range and the 13-percent range. I  
22 have now gotten it into the 12-percent range, and I

1 believe, in the course of the next year, I'll continue  
2 to get it down.

3           The other thing that we had less expenses in  
4 in the past year was travel, because we were spending  
5 more time doing work at the headquarters. However,  
6 we're going out to the field more, and we expect the  
7 travel costs to be -- as part of the travel -- will be  
8 picked up and that, as a result, our -- you know, our  
9 carry over will shrink.

10           MR. GARTEN: I note from the records  
11 that -- correct me if it's incorrect -- that, for 2006,  
12 you requested 3.4 million, and the Senate, in their  
13 report, is allocating 2.6 million.

14           So, the likelihood is it's going to be below  
15 2.6 million when the '06 budget is -- the figures are  
16 finalized.

17           MR. WEST: I have no way of knowing what it's  
18 going to do, because the subcommittee that will be  
19 involved in some of the negotiations, when it passed  
20 its number, which is different from the Senate's  
21 number, which, by the way, doesn't add up -- I think,  
22 as the footnote indicates, it actually adds up to 369

1 million or something close to that, but I just want to  
2 make the point that, from the subcommittee, when it did  
3 its initial budget that went to the full Senate,  
4 the -- it actually had cut LSC but had raised my  
5 budget.

6           So, I have no idea, by the time they get done,  
7 who is going to get what.

8           So, I think that --

9           MR. GARTEN: We do know that the Senate has  
10 appropriated 2.6 million.

11          MR. WEST: That's correct.

12          MR. GARTEN: That is a definite figure.

13          All right.

14          Now, could you give us an idea -- you've  
15 indicated that you're embarking on a program to meet  
16 with each of the independent certified accountants for  
17 each of the 140-some programs, which you've indicated  
18 is going to require substantial funds.

19          Can you give us an idea of how much of your  
20 budget is applicable to that particular mission of  
21 yours?

22          MR. WEST: I can't give you an exact number,



1 but I can tell you that it will involved several more  
2 staff and a lot more traveling. Again, this is what I  
3 would propose doing, and let me tell you why.

4           In 1996, I think, as part of the compromise to  
5 keep the Legal Services Corporation from being put out  
6 of existence, Congress gave the Inspector General the  
7 authority and responsibility for three different kinds  
8 of audits that each grantee is required to have, and  
9 they're supposed to have an independent public  
10 accountant do it. The audits are a financial statement  
11 audit, an internal control audit, and a compliance  
12 audit.

13           What we have done since I've come on and  
14 looked at the actual work being done by the IPAs and in  
15 the course of having done 10 visits recently, what  
16 we've determined is the IPAs don't understand what the  
17 compliance audits are really about.

18           They are trying to link the compliance audits  
19 back to the financial statement audits rather than the  
20 compliance audits serving a major purpose for  
21 the -- for this office to be able to certify to the  
22 Congress that there is compliance.

1 Congress wanted that done.

2 That was the signal in '96, and we are in the  
3 process of revising the guidance to the independent  
4 public accountants. As we've gone and visited  
5 them -- and keep in mind, when we visit them, we're not  
6 impinging upon the work of the grantees. We're not  
7 visiting the grantees. We're visiting their  
8 independent public accountants.

9 MR. GARTEN: Let me ask you this.

10 Do you know how much of your request for 2007  
11 of \$3,500,000 is applicable to your doing this field  
12 work?

13 MR. WEST: I believe when we were working  
14 out -- as part of our work plan, that we figured this  
15 was four auditor positions that would be involved and  
16 \$60,000 travel, keeping in -- and that's just a rough  
17 estimate.

18 Some of them take longer than we anticipate,  
19 because we sit down with all the accountants and  
20 determine they may not have the kind of records, they  
21 may not be doing the kind of interviews that are  
22 expected to be done in the course of doing their audits

1 of the grantees.

2 MR. GARTEN: Have you considered sending out  
3 memorandums to each of these independent CPAs, similar  
4 to what you did in connection with your recent  
5 memorandum to the programs, combine it with conference  
6 calls and random audits, when you thought it was  
7 necessary?

8 MR. WEST: We've thought about that, but keep  
9 in mind that these independent public accountants  
10 already have information from our office in terms of  
11 how to conduct the compliance audits. What we're  
12 finding out is when we go and look at how they're doing  
13 it, they're just not getting it. They don't understand  
14 the significance of ensuring compliance with the  
15 restrictions, and I think that, in order for us to  
16 ensure to the Congress that the compliance they're  
17 expecting to be in place is done, for me to do my job  
18 the way I think it needs to be done, we need to do one  
19 cycle of these, and we need to do them in the next  
20 three years.

21 I anticipate, after that, the numbers having  
22 to do with the visits -- you know, you're probably

1 going to look at more like a five or six-year or more  
2 of a random cycle, but we feel that we need to get to  
3 all the IPAs.

4 MR. GARTEN: Well, based upon your figures, it  
5 looks to me like it's at least \$600,000 a year to do  
6 these audits on an individual basis. What has been  
7 your experience with the ones that you have  
8 investigated?

9 MR. WEST: Our experience is they are  
10 not -- they're not doing the kind of  
11 interviews -- they're looking to our box is checked.  
12 They're really not getting behind -- they're not asking  
13 the kind of questions that we think need to be asked to  
14 ensure compliance.

15 MR. GARTEN: You don't think you can prepare a  
16 checklist for them?

17 MR. WEST: We've already prepared it, and what  
18 we've determined is they are -- these compliance audits  
19 are something that the typical independent public  
20 accountant out in the field doesn't do. That's not  
21 their business.

22 They do financial statement audits, and we're

1 asking them to do something that's very foreign to  
2 them, and it takes a lot of discussion and guiding them  
3 through what needs to be done.

4 MR. GARTEN: These are licensed CPAs. They  
5 are familiar with all types of audits, including  
6 Securities and Exchange Commission, and I can't believe  
7 that a detailed memorandum prepared by you, with a  
8 checklist, combined with random audits to see how it's  
9 working out wouldn't save us at least \$600,000 a year,  
10 but I also want to point out the added burden on the  
11 programs. They're going to get additional bills from  
12 their CPAs, and they're going to have to spend  
13 additional time, and I think it's worthwhile having a  
14 test program before you implement something to this  
15 extent.

16 That's my opinion, and I wonder if anybody  
17 else on the committee or the board would like to ask  
18 any questions or get any further elaboration on this  
19 program.

20 MR. FUENTES: Mr. Chairman, I note that the  
21 variance on the budget that you pointed out initially  
22 for the Office of Inspector General is somewhat

1 consistent with that under-spending in the overall  
2 program by management. So, I find that supportive of  
3 that carry-over.

4           Secondly, I think that, importantly, we have  
5 two tasks here at this board that are significant, and  
6 a good effort by the Inspector General well serves the  
7 second of these.

8           One, of course, is to provide funding for our  
9 grantees to deliver services to the poor, and the other  
10 is our responsibility as a board to do all that we can  
11 to assure that abuses do not occur, and I think that  
12 this is a very important tool in our tool kit as a  
13 board member, as a board, to see that that's done, and  
14 to handicap the Inspector General without giving him  
15 all the resources to do that job is not a positive  
16 thing. The history of this organization suffered much  
17 when those abuses occurred, and I, as one board member,  
18 am very grateful to have the resource of the Inspector  
19 General to get this job done as thoroughly as possible.

20           MR. GARTEN: I'm not suggesting he doesn't do  
21 the job.

22           I'm suggesting it be done in a more efficient

1 and normal manner than sending individual auditors, at  
2 a cost of \$600,000, into the field, and put an  
3 additional burden and, in fact, additional CPA fees to  
4 our clients when this can be done in a much more  
5 streamlined manner, in my opinion. Of course, it's up  
6 to this committee and board to make the final  
7 determination.

8 Any other questions?

9 MS. BEVIER: Well, I guess I do have a  
10 question to the Inspector General, and that has to do  
11 with -- what you're suggesting is a little bit scary,  
12 because I take it what you're suggesting is that these  
13 compliance audits by the Inspector General have not  
14 been done, and that would suggest that there is a lot  
15 of noncompliance out there, I mean a really substantial  
16 amount, or that there is a substantial risk of that,  
17 and I take it, also, that the implication here is -- I  
18 mean I realize that you have a different job to do.  
19 I'm really just trying to get a handle on this, but our  
20 Office of Compliance, you know, that is not the -- it's  
21 not your office, but we do have, you know, an Office of  
22 Compliance that undertakes to make sure that the

1 restrictions, at least, are complied with, that all of  
2 the legal requirements are complied with, and I  
3 don't -- I don't understand the assessment of the risk  
4 out there that you're suggesting, because you're  
5 suggesting it's a pretty big risk of noncompliance.

6 MR. WEST: I'm suggesting it's more what we  
7 don't know, and maybe that is a risk.

8 I think it is.

9 We asked a statistician how many visits would  
10 we need to do to get -- I think the number was 95  
11 percent, you know, confidence rate, and it was in the  
12 forties per year.

13 MS. BEVIER: Is that what you're asking for,  
14 is to do 40 per year?

15 MR. WEST: Yeah, it's roughly 40 or 45 a year,  
16 as opposed to -- in the year before I took over, it was  
17 being done by a CPA firm, and they were just going and  
18 checking to see if things were checked, rather than  
19 trying to look at sort of the underlying questions, and  
20 part of what we're also doing is, when we're talking to  
21 the IPAs, is we're finding out there are things in the  
22 past that my office has asked about that really don't



1 need to be asked about, and other things that do need  
2 to be asked about. So, I think it's improving the  
3 process.

4 MS. BEVIER: Is this a mismatch in terms of  
5 what Congress has required the grantees to do, I mean  
6 to have an independent public accountant do compliance  
7 work that is not financial compliance?

8 MR. WEST: In a sense it is, and I've worked  
9 with auditors for 20 years in the IG community, and  
10 there are really two kinds of auditors. There are  
11 financial auditors, and they are really, you know, very  
12 much just into numbers, into whether things line up,  
13 and the kind of compliance work that needs to be done  
14 has to be more than that. It has to be more than just  
15 are boxes checked.

16 In other words, if you go and -- go  
17 through -- in a grantee's office, the IPA goes and  
18 looks -- all the boxes are checked, financial  
19 eligibility. Well, what if the computer program just  
20 generates an automatic check mark, and part of what  
21 they're supposed to do is have these interviews with  
22 grantee staff to go, you know, into greater detail.

1           In other words, the IPAs are the eyes and ears  
2 for the -- for LSC, for the board. I mean they are the  
3 only ones that are in there every year, and we want to  
4 make sure that they're asking the right questions, they  
5 understand the questions to ask.

6           MS. BEVIER: And is it duplicative of what the  
7 Office of Compliance does, or is it more thorough, or I  
8 mean what is the relationship between what your office  
9 does and what LSC itself does?

10          MR. WEST: I think it's probably premature.  
11 We're in the middle of doing a job on that right now.

12          MS. BEVIER: Okay.

13          MR. WEST: I can tell you there is a lot of  
14 overlap.

15          MS. BEVIER: Okay.

16          MR. WEST: And you know, Congress did give  
17 that specific mission to the IG in terms of overseeing  
18 the audit process being done by the IPAs.

19          MS. BEVIER: Suppose we were to say, all  
20 right, this year we'll try for -- to give you what you  
21 want, and you come back and you're training and you're  
22 looking at -- your audit of the auditors convinces you

1 that there is not really a problem.

2 MR. WEST: I think if we did -- in one year,  
3 and we came back and came with that conclusion, I think  
4 we'd say we can cut back and do, you know, 15 a year  
5 and we'll do a stratified statistical sample.

6 MR. GARTEN: That's a random audit. That's  
7 what you're saying.

8 MR. WEST: Well, a random -- but with, you  
9 know, certain indicators, so you'd look at size of  
10 program, all sorts of risk factors, and you'd do a --

11 MS. BEVIER: But you'd be more certain. I  
12 mean then -- I mean now, I take it, what I am  
13 hearing -- and I'm not sure I'm hearing right, but I'm  
14 hearing that this -- this job has not been done  
15 effectively by -- in accordance with what Congress, in  
16 its, quote, "wisdom," unquote, has required, and if  
17 that's the case, then it makes me uncomfortable. I  
18 don't know what the duplication is.

19 My guess is there's probably a lot, but I  
20 think it's important that we -- you know, my guess is,  
21 to be honest, that the Inspector General, if he gets  
22 this money, will come back and say I don't need that

1 much, because in fact, what we have is a situation  
2 where the grantees are, in fact, complying with their  
3 legal obligations.

4 MR. STRICKLAND: May I ask a question, Mr.  
5 Chairman?

6 MR. GARTEN: Sure.

7 MR. STRICKLAND: Let me ask the Inspector  
8 General to -- when you mentioned the concept of being  
9 certain that the IPAs are asking the right questions,  
10 give us some examples of what those right questions  
11 would be.

12 MR. WEST: Well, I mean one is making sure  
13 that they're doing the right number -- a significant  
14 number of interviews.

15 In other words, when they go out, they should  
16 be interviewing staff.

17 MR. STRICKLAND: Asking staff what questions?

18 MR. WEST: Asking staff about the various  
19 restrictions, asking them about income eligibility, the  
20 determinations, how they're made, and we're finding  
21 out, in some cases, they aren't even doing interviews,  
22 even though our guidance says do interviews. We're

1 finding out that -- we're finding a couple of cases  
2 that do it really well.

3           So, we're finding it very uneven, and that's,  
4 I think, what's a little bit unsettling. Having done  
5 10, we found a -- just such a discrepancy between the  
6 kind of quality, how they're looking at things, and I  
7 think we -- you know, this is a learning process for  
8 us.

9           What we did is the fellow I brought over to my  
10 acting head of audit has gone out on some of these  
11 reviews so he could get a sense of what was going on,  
12 and that's where we came back feeling pretty  
13 uncomfortable.

14           Also, I want to comment -- I don't think I  
15 answered the question Lillian asked directly. I think  
16 it isn't the best fix.

17           I'm not sure Congress came up with an ideal  
18 solution for determining compliance, but that's what  
19 they've done.

20           I'm not sure the -- having an independent  
21 public accountant doing these kind of reviews to assure  
22 compliance with complex regulations is a very good

1 vehicle.

2 I mean I think, for any of us that have gone  
3 through regulations, they're really confusing, and some  
4 IPA that has, you know, three days or five days a year  
5 to go have to try to figure them out, it's really,  
6 really a problem, and I think that's why we're really  
7 looking to get -- you know, to go down -- you know,  
8 have more discussions with the IPAs, figure out how can  
9 we get clearer guidance to them so they can do the job,  
10 so we can go back to Congress and make the assurance  
11 that Lillian said, that there really isn't a problem  
12 there.

13 MR. STRICKLAND: When you use the term  
14 "compliance," I take that to mean -- tell me if I'm  
15 wrong -- compliance with the '96 restrictions?

16 MR. WEST: That's correct.

17 MR. STRICKLAND: In other words, ask -- the  
18 IPA should ask appropriate questions to determine that  
19 compliance.

20 You're not talking about compliance with  
21 something else.

22 MR. WEST: No, I'm talking about

1 compliance -- and that's what the compliance audit is,  
2 compliance with the 14 restrictions that Congress put  
3 in in '96.

4 MR. STRICKLAND: In other words, ask the right  
5 questions to assure compliance with that list of  
6 restrictions that arose out of the '96 --

7 MR. WEST: Correct.

8 MR. STRICKLAND: Okay.

9 Thank you.

10 MS. BEVIER: I take it that one of the things  
11 you hope will emerge out of this is a better way of  
12 communicating to these people what it is that they  
13 should be doing so that you can have a better  
14 instruction sheet or form or memorandum.

15 As Herb was suggesting -- I mean his  
16 suggestion sounds quite plausible, but if they don't  
17 know what they're doing now and -- you need to learn  
18 what they don't know so you can try to -- I don't mean  
19 to be putting words in your mouth. I'm just trying to  
20 figure this out.

21 MR. WEST: One of the things I actually want  
22 to do is what Herb suggested, is once we get, you know,

1 a better handle on this, that we put out yearly  
2 guidance, and in fact, maybe what we do is say, in  
3 2007, we really -- while you're doing the normal work,  
4 we want you to focus on this particular area, because  
5 we've noticed throughout the programs this -- you know,  
6 this error tends to come up more, and keep in mind, we  
7 have not found, you know, glaring examples of  
8 noncompliance.

9           So, it's not -- but it's -- again, I don't  
10 know if we've been asking the right questions either,  
11 and you know, until we know we've asked the right  
12 questions, I'm not sure we can -- you know, if I had to  
13 go up and, you know, put my hand under oath to  
14 Congress, am I confident that this process is working,  
15 I could not say I'm confident right now.

16           I hope, in a year or two, I can say I am  
17 confident.

18           MR. STRICKLAND: Another question, Mr.  
19 Chairman.

20           So, the end game here, it seems, looks  
21 something like this -- again, correct me if I'm wrong.

22           First, our own Office of Compliance and



1 Enforcement -- that is, the LSC Office of Compliance,  
2 OCE -- is supposed to ask the right questions, is it  
3 not? In other words, with respect to compliance with  
4 the restrictions. I'm assuming that's something they  
5 should ask if they go visit a grantee. They should ask  
6 the right questions.

7           Let me go ahead with my hypothetical. So,  
8 let's assume that, that the OCE -- I'm hoping this is  
9 not a hypothetical, but I'll pose it as a hypothetical,  
10 that OCE goes in, and one of the things they should do  
11 is ask the right questions.

12           Second, the independent public accountant is  
13 supposed to ask the right questions, and then, third,  
14 the Inspector General would come in to make sure that  
15 the right questions have been asked.

16           Is that accurate, that all three of those  
17 things should occur?

18           MR. WEST: I would pose -- and I don't want to  
19 get into a whole side issue of what OCE does, because I  
20 think they're going to have to address what they do and  
21 what they feel their mission is.

22           We do have a draft report out, and I would

1 just as soon not comment on that till we have -- that  
2 process is gone through.

3 Just from my perspective, if you look at the  
4 '96 restrictions, Congress said one thing. The IPAs  
5 are to do this kind of work and it's to be done under  
6 the direction and guidance and oversight of the OIG.

7 That I know for sure. That's in the -- and  
8 each year, they renew that.

9 Now, of course, Congress, at some point, could  
10 decide we no longer want to do that, and then my office  
11 would -- I think we'd be down-sized, because that would  
12 take away a significant role that we're doing.

13 MR. STRICKLAND: Would you disagree with my  
14 theory that the -- it seems appropriate to me, from the  
15 board level, that our own Office of Compliance and  
16 Enforcement ought to be -- I'm using this  
17 term -- asking the right questions.

18 MR. WEST: I would agree with that, and I do  
19 think what we have found is duplication between the  
20 IPAs' work and what OCE does. How much  
21 duplication -- that's -- because I mean they go broader  
22 than what the IPAs are doing.

1           OCE is looking for other things, in  
2 addition --

3           MR. STRICKLAND: Right.

4           MR. WEST: -- to those things.

5           MR. STRICKLAND: But within the mix of  
6 questions that OCE might ask -- and I realize you're  
7 the Inspector General, not the director of OCE, but at  
8 least in theory, within the mix of questions that OCE  
9 would ask during a compliance visit, should be these  
10 so-called right questions with regard to the  
11 restrictions -- that is, to assure compliance with  
12 those restrictions -- followed by the independent  
13 public accountant asking the same right questions, and  
14 then, finally, the IG's review of that, at least of the  
15 work of the IPA.

16           MR. WEST: I would say the difference is,  
17 every year, there is an IPA in every grantee's office.

18           OCE is not in every grantee's office every year, and  
19 so, there is one thing that happens every year, and  
20 those IPAs are in there, and so, in terms --

21           MR. STRICKLAND: So, I really should modify my  
22 hypothetical on that to instances where OCE has been

1 for a visit with a grantee, they would then have the  
2 IPA coming in, followed by, if you happen to visit,  
3 your review of the IPA's work. Just trying to figure  
4 out who does what.

5 MR. WEST: And I think that we'll be having a  
6 report to you next spring that's probably going to show  
7 everybody's role doing everything, and I think it is  
8 a -- because at the same time that I think that what  
9 President Barnett's trying to do, having OPT and OCE do  
10 some joint things, they have a commonality, too,  
11 that's, you know, different from just compliance,  
12 and --

13 MR. STRICKLAND: Well, your explanation has  
14 been very helpful.

15 I just wanted to make sure I was not  
16 off -- wildly off the mark in my theory.

17 MR. WEST: I think you're on the mark.

18 MR. GARTEN: Tom, I have just a point of  
19 clarification.

20 You referred to your role as designated by  
21 Congress as an oversight role.

22 Is that what you just quoted to us about five

1 minutes ago?

2 MR. WEST: We have -- the IPAs -- and if I  
3 could read the exact -- I don't have the statute in  
4 front of me, but it's basically the IPAs are to work  
5 under our direction, under what -- we tell them what to  
6 do.

7 In addition, we have been given authority to  
8 do on-site monitoring.

9 So, that's sort of the oversight function.

10 MR. GARTEN: Well, what I get from what you  
11 quoted, the oversight, and what you just said is -- I  
12 don't think there was any intent on the part of  
13 Congress to ever require you to have a staff that would  
14 individually go out and audit the independent auditor,  
15 and that, to me, is duplication, and it seems to me  
16 that, if you came to us with a proposal to -- instead  
17 of hiring four accountants and spending \$600,000, that  
18 you wanted to do several things -- send out a  
19 memorandum explaining everything to the independent  
20 CPA, just like you did with the Ford issue, and you  
21 followed it up with conference calls, answering  
22 questions, and if you couldn't get 140 independent CPAs

1 on the phone at one time, do it in a series, and avoid  
2 all this travel expense and the additional expenses on  
3 the part of the individual organizations, and follow  
4 that up with an audit report of one of these -- or two  
5 of these new auditors that you're hiring for this  
6 purpose -- to me, that makes a lot more sense and, I  
7 think, conforms to what Congress must have meant. They  
8 didn't mean for you all to go out there and do  
9 independent audits of the independent CPAs.

10 Tom?

11 MR. MEITES: I picked up what Tom and Lillian  
12 said, that Congress is clearly concerned that  
13 compliance be had, and they might have picked kind of  
14 an odd way to do it, by giving it to accountants, not  
15 to disparage Herb's other profession, but I don't see  
16 an accountant being the person I'd pick to go in to ask  
17 the kind of questions -- but that's not our choice.  
18 So, what I hear you saying is you really have two  
19 issues.

20 One, you have to educate the independent  
21 auditors as to what they're supposed to be doing,  
22 because it's not their normal kind of work, and two,

1 you have to make sure you're doing it, and I think  
2 where Herb is at -- and I am, too -- and I'm sure that  
3 the rest of the board is -- we'd like you to find the  
4 most economical way to do both tasks as far as absolute  
5 dollars.

6 I don't think anyone on the board disputes  
7 that the work has to be done. What I am concerned  
8 about is the dollars seem large, but it occurs to me,  
9 if you can separate the educational function from the  
10 oversight function, you don't need to make individual  
11 visits to an accountant to tell them how to eat  
12 porridge.

13 You could have them teleconference with groups  
14 of 10, or you could have a teleconference with all of  
15 them at once, and get up and berate them, or whatever  
16 you do with accountants, in order to get them to do  
17 what they're supposed to do, and after you've educated  
18 them as much as you can least expensively, then  
19 obviously you have to do the other part of your job,  
20 which is to make sure they listen and are able to do  
21 it, but I don't think, it seems to me, that the way to  
22 do the educational function is one-on-one visits.

1 That's not the way you teach people.

2           You can teach them effectively en masse, and  
3 so, what I think -- what I'd like to hear, just to  
4 assure myself, is that you've thought about the most  
5 cost-effective way of doing what I see as both parts of  
6 your task.

7           MR. WEST: I believe I have because I -- when  
8 we go out and do these reviews of what the IPAs have  
9 done, we are going out to assure that they've done them  
10 according to government auditing standards. So, it's  
11 not just an educational thing, and there are many times  
12 we end up going back and say you have to redo this  
13 work, you have missed this, you have missed that, and  
14 we found a lot of that, but in the course of doing  
15 that, we've found, also, that they don't understand  
16 what these compliance audits are all about, and I think  
17 it's not a great tool, and I think, if I had my choice,  
18 I would not be sending an independent public accountant  
19 out to determine compliance with some complex  
20 regulations.

21           But that's the hand I've been dealt with, and  
22 I think, from my perspective, to do my job right now, I



1 need to have significantly more visits.

2           Now, if Congress, in its wisdom, chooses not  
3 to give me the money, then I'll do fewer visits. I can  
4 do with what the resources they give me, but I think  
5 from having some experience we've had the last three  
6 months, in looking at -- what happened before I got  
7 there, we had this process and we were just going  
8 through this process, and nobody was looking behind it  
9 to say did it make sense and are we really asking the  
10 right questions.

11           We were just kind of going through the  
12 motions.

13           I guess I'm trying to not to go through the  
14 motions.

15           I'm trying to --

16           MR. MEITES: I'm with you. My only point is  
17 that -- the educational side, teaching -- or bringing  
18 them up to speed on what is expected of them. That  
19 strikes me as the necessary step, because apparently  
20 they aren't clear in their minds what they're  
21 expected -- and that's a step that we would hope -- I  
22 think the board would hope you could do as cheaply and

1 effectively as possible, teleconferencing or some kind  
2 of general information sharing.

3 MR. WEST: Well -- and I think I -- in the  
4 last report I sent to the board, I think I indicated we  
5 are updating our audit supplement for the IPAs, and  
6 that's part of this process, is learning -- there were  
7 some things we're going to take out, as well as some  
8 things we're going to add.

9 Before I arrived, there wasn't even a  
10 requirement that the IPAs talk to anybody. It was  
11 suggested guidance, as opposed to minimum numbers, and  
12 the question was, if you have a program with -- a very  
13 small program, you'd need to have us really do a lot  
14 less testing, because you have fewer cases, than if you  
15 have a huge program, and -- you know, so there hasn't  
16 been any guidance in terms of numbers, size, what's an  
17 adequate sample for the IPAs to review.

18 So, there's all sorts of things we're trying  
19 to work out.

20 MR. GARTEN: Charles Jeffress has been asking  
21 to address us.

22 MR. JEFFRESS: Thank you, Mr. Chairman. I

1 just wanted to provide you with one more fact as you  
2 all just try to divine the intent of Congress, and I  
3 wish you well with that. I think that's an awful hard  
4 job sometimes.

5 In 1996, as Kirt said, Congress passed the  
6 restrictions and asked the IPAs to check whether the  
7 grantees had systems of compliance in place to assure  
8 compliance with those restrictions, and to check on  
9 those systems.

10 Five years later, in 2001, Congress said to  
11 LSC, you need to expand your Office of Compliance and  
12 Enforcement, and provided the money to expand the staff  
13 from 11 people to 18 people in order to do more of the  
14 compliance checks which they expect LSC management to  
15 do.

16 So, in terms of what Congress is expecting  
17 from the corporation, we have both the requirement that  
18 IPAs do some checks on systems, but we also have some  
19 very specific appropriations and increased  
20 appropriations five years after they put the IPA system  
21 in place for LSC to have a strong compliance effort  
22 in-house.

1           So, I'd just add that as one more piece of  
2 information for you to consider as you think about how  
3 you think this corporation should be ensuring that the  
4 grantees are in compliance with the regulations.

5           MR. GARTEN: Thank you.

6           Any other comments or questions?

7           Hearing none, we had a vote at the September  
8 meeting, and you will recall my qualifications at that  
9 meeting, and for those who were not present, I voted  
10 with the others to adopt this target, with the caveat  
11 that I would bring this matter up at this meeting  
12 again, and attempted to get some additional  
13 information, which I think we have.

14           So, procedurally, I'd accept an amendment. I  
15 accept the motion to recommend this fiscal 2007 budget  
16 to the full board, and either it could be with the  
17 amendment that I would make after the recommendation  
18 that took place at our September meeting was made, and  
19 we could vote on the amendment, up or down, and then  
20 vote on the main motion. Does that procedure meet with  
21 the approval of the committee?

22

M O T I O N

1 MS. BEVIER: Sure. I mean I think we can  
2 vote.

3 I move that we adopt the resolution -- that we  
4 recommend to the board -- we've actually done this  
5 once.

6 MR. GARTEN: Yes.

7 MS. BEVIER: So, I don't know that we need to  
8 do it again, unless you want to move the -- that we  
9 amend it.

10 MR. GARTEN: I'm going to move the amendment.

11 MS. BEVIER: Okay. Because we -- the  
12 recommendation has already been moved, and the Finance  
13 Committee has made the recommendation.

14 So, if we want to change it, I think you  
15 should just move that we amend the change, that we  
16 amend the --

17 MR. GARTEN: I'll follow that procedure.

18 MS. BEVIER: Okay.

19 M O T I O N

20 MR. GARTEN: I move that we amend the request  
21 of the Inspector General for fiscal 2007 budget, as I  
22 did at the September meeting originally, some

1 3,500,000, to 2,600,000, which is the Senate  
2 appropriation amount.

3 I did not get a second at the Finance  
4 Committee meeting, and I do not have a second,  
5 apparently, from the committee today, which is fine.

6 All right. And so, we'll move to the main  
7 motion, which has already been approved -- that will go  
8 before the full board.

9 MS. BEVIER: Yeah. I think -- I think that's  
10 the way to do it, since we've already done it.

11 MR. GARTEN: The fact that it was on the  
12 agenda again is the reason why I brought the matter up.

13 MS. BEVIER: I think it's a good idea that you  
14 brought it up, and I'm glad we had a chance to talk  
15 about it.

16 MR. GARTEN: All right. And of course, this  
17 discussion, I think, has helped certain of the members  
18 of the board.

19 All right.

20 We'll go to the next item.

21 These are a series of resolutions dealing with  
22 the individual employee savings plans, and the first

1 one 8a, Resolution 2005-013, contributions to the  
2 health savings accounts -- I've read all of these. And  
3 are there any -- need for any discussion on this one?

4 M O T I O N

5 MR. FUENTES: Move adoption as recommended to  
6 the board for recommendation to the -- to the committee  
7 for recommendation to the board.

8 MS. BEVIER: Second.

9 MR. GARTEN: All in favor?

10 (Chorus of ayes.)

11 M O T I O N

12 MR. GARTEN: Second one, Resolution 2005-014.

13 MR. FUENTES: Move recommendation to the board  
14 for adoption.

15 MS. BEVIER: Second.

16 MR. GARTEN: All in favor?

17 (Chorus of ayes.)

18 MR. GARTEN: Resolution 2005-015.

19 M O T I O N

20 MR. FUENTES: Move recommendation to the board  
21 for adoption.

22 MS. BEVIER: Second.

1 MR. GARTEN: All in favor?

2 (Chorus of ayes.)

3 MR. GARTEN: Item number 9, consider and act  
4 on the process for distribution of emergency funds,  
5 Resolution 2005-016.

6 Who is going to address this?

7 MR. JEFFRESS: Mr. Chairman, if I can address  
8 that, we put this on the agenda in the event that a  
9 supplemental appropriation was introduced into  
10 Congress, and in the event that there was money that  
11 the corporation would be distributing in response to  
12 the hurricanes. Since there is no supplemental money  
13 at this point that has been introduced in Congress, nor  
14 do we have any certainty that there will be any, we  
15 would, at this point, recommend you take this off the  
16 agenda and not discuss it.

17 Should supplemental money become available, we  
18 will, of course, bring it back to you.

19 MR. GARTEN: All right. And I would presume  
20 that if it happens before our next board meeting, that  
21 this could be the subject of a telephonic board  
22 meeting, so that we don't delay any distribution of



1 whatever funds are available.

2 MR. JEFFRESS: There is a full board  
3 telephonic meeting that I know we're trying to schedule  
4 for -- I believe it's November 28th.

5 MS. BARNETT: That's scheduled.

6 MR. JEFFRESS: It is now scheduled for  
7 November 28th, so perhaps, if it's necessary, we could  
8 do it at that time.

9 MR. GARTEN: Well, I'm not certain of what the  
10 legal requirements would be to put it on the agenda,  
11 but we ought to check on that.

12 MR. JEFFRESS: We'd have to give notice 10  
13 days ahead of time, so we have some time to --

14 MR. GARTEN: All right.

15 Any questions or discussions on this?

16 Consider and act on other business. Do we  
17 have any?

18 (No response.)

19 I'll entertain a motion to adjourn.

20 MS. BEVIER: I move we adjourn.

21 M O T I O N

22 MR. FUENTES: Second.

1 MR. GARTEN: All in favor?

2 (Chorus of ayes.)

3 MS. BARNETT: Might I just say that the board  
4 meeting will commence tomorrow at 9:00 o'clock.

5 MS. BEVIER: Great.

6 (Whereupon, at 4:50 p.m., the committee was  
7 adjourned.)

8 \* \* \* \* \*

9

10

11

12

13

14

15

16

17

18

19

20

21