

LEGAL SERVICES CORPORATION  
BOARD OF DIRECTORS

MEETING OF THE  
AUDIT COMMITTEE

OPEN SESSION

Sunday, September 30, 2012

4:20 p.m.

Hilton Durham Hotel  
3800 Hillsborough Road  
Durham, North Carolina 27705

COMMITTEE MEMBERS PRESENT:

Victor B. Maddox, Chairperson  
Harry J.F. Korrell, III  
David Hoffman (Non-Director Member)(by telephone)  
Paul L. Snyder (Non-Director Member)(by telephone)  
John G. Levi, ex officio

OTHER BOARD MEMBERS PRESENT:

Laurie Mikva  
Julie A. Reiskin

## STAFF AND PUBLIC PRESENT:

James J. Sandman, President  
Rebecca Fertig, Special Assistant to the President  
Victor M. Fortuno, Vice President for Legal Affairs,  
General Counsel, and Corporate Secretary  
Mark Freedman, Senior Assistant General Counsel,  
Office  
of Legal Affairs  
Lynn Jennings, Vice President for Grants Management  
David L. Richardson, Comptroller and Treasurer,  
Office  
of Financial and Administrative Services  
Jeffrey E. Schanz, Inspector General  
Laurie Tarantowicz, Assistant Inspector General and  
Legal Counsel, Office of the Inspector General  
Matthew Glover, Associate Counsel, Office of the  
Inspector General  
David Maddox, Assistant Inspector General for  
Management and Evaluation, Office of the  
Inspector General  
Ronald "Dutch" Merryman, Assistant Inspector General  
for Audit, Office of the Inspector General  
Carol Bergman, Director, Office of Government  
Relations  
and Public Affairs  
Carl Rauscher, Director of Media Relations, Office  
of  
Government Relations and Public Affairs  
Marcos Navarro, Office of Government Relations and  
Public Affairs  
Janet LaBella, Director, Office of Program  
Performance  
Allan J. Tanenbaum, Non-Director Member, Finance  
Committee (General Counsel, Equicorp Partners)

Chuck Greenfield, National Legal Aid and Defender  
Association (NLADA)  
Terry Brooks, American Bar Association

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(4:20 p.m.)

CHAIRMAN MADDOX: I'm going to call the meeting of the Audit Committee of the Legal Services Corporation to order, and ask first of all if the members of the Committee could identify themselves for the record.

MR. KORRELL: Harry Korrell.

CHAIRMAN MADDOX: Anyone on the phone?

MR. SNYDER: Paul Snyder and David Hoffman are on the phone.

CHAIRMAN MADDOX: I understand Gloria Valencia-Weber is en route and is not able to participate today. So I believe we have a quorum, and so I'll call the meeting to order.

The first order of business is approval of the agenda. Is there a motion to approve the agenda?

## M O T I O N

MR. KORRELL: Move to approve.

CHAIRMAN MADDOX: Second?

MR. SNYDER: Second.

1           CHAIRMAN MADDOX: All in favor?

2           (A chorus of ayes.)

3           CHAIRMAN MADDOX: The motion is agreed to.

4           The next order of business is approval of

5 the minutes of the Committee's July 27, 2012

6 meeting. Is there a motion to approve those

7 minutes?

8           MR. SNYDER: Victor, my only point is that

9 I also participated by phone. If the minutes could

10 note that, that would be fine.

11           CHAIRMAN MADDOX: Is that Paul?

12           MR. SNYDER: Yes. Sorry. I should have

13 identified myself. But I participated by telephone

14 as well.

15           CHAIRMAN MADDOX: Right. The draft minutes

16 show you were present.

17           MR. SNYDER: Yes. And I was not. I called

18 in.

19           CHAIRMAN MADDOX: Oh, I see. Okay. So

20 we'll amend the minutes to reflect that Paul Snyder

21 was present by telephone. With that amendment, is

22 there a motion to approve the minutes?

1 M O T I O N

2 MR. SNYDER: So moved.

3 MR. KORRELL: Second.

4 CHAIRMAN MADDOX: Second. All in favor?

5 (A chorus of ayes.)

6 CHAIRMAN MADDOX: Hearing no objection, the  
7 minutes of the July 27, 2012 meeting are approved.

8 That takes us to item number 3, the  
9 consideration and acting on a revised Audit  
10 Committee charter. I just want to lay the  
11 foundation for where we are.

12 We met telephonically on June 25th to  
13 discuss a draft of the charter. We had about a 2-  
14 1/2 hour meeting. And at that meeting, the members  
15 of the Committee voted to approve -- at least voted  
16 in principle to approve -- the language that we had.

17 I think that we then decided that we would  
18 take additional comments on the draft. We received  
19 additional comments from the Inspector General's  
20 office. There have been various memoranda and draft  
21 revisions circulated, I believe.

22 And we now have a draft of the proposed

1 charter that I think is in our book in redlined, or  
2 bluelined, format. If it's not in the book, it's  
3 available here on the back table.

4 Paul and David, I asked Becky to email that  
5 to you in the event that you did not have it, and I  
6 understand, David, you're able to look at it on your  
7 iPad, and that Paul, you are not able to see it  
8 because you're driving, I think.

9 MR. SNYDER: I have switched roles with my  
10 wife. I have an opportunity to see the revised  
11 charter here.

12 CHAIRMAN MADDOX: Fantastic. Well, through  
13 the miracles of marital bliss and technology, we've  
14 got everybody on the same page.

15 So I don't think that there are any radical  
16 changes in the draft that we now have in front of us  
17 from what we discussed on June 25th. We've got Vic  
18 Fortuno here, who is the draftsman for these  
19 changes, and if need be we can ask Vic for his  
20 comments and suggestions.

21 I think the questions that are on the table  
22 right now are which language to accept in certain

1 sections where we have alternative formulations.  
2 Those would be Section VII(1), VII(2), and VIII(6).  
3 I believe those are the only three alternative  
4 formulations that we've got.

5 I circulated, I think, an email,  
6 communicated individually with folks at some point  
7 last week where I suggested that the alternative  
8 formulation in Section VII(1) would be perhaps  
9 preferable to me. I understand that the IG may have  
10 concerns about that and prefers the non-alternative  
11 formulation, although I'll let him speak for his own  
12 office on that.

13 But that's kind of where we are. The  
14 principal difference, I think, in substance between  
15 this and the agenda, or the draft, that we reviewed  
16 and discussed and approved in principle on June 25th  
17 is that in Section VIII(1), we have eliminated from  
18 this draft, which was in the original charter from  
19 2008 -- we've eliminated the use of the word  
20 "oversee" in connection with the Committee's duties  
21 regarding the selection of the external auditor. So  
22 that's one important change.



1 MR. HOFFMAN: This is David Hoffman.

2 CHAIRMAN MADDOX: Yes, David?

3 MR. HOFFMAN: Could I just ask some  
4 questions? I'm having trouble following where we  
5 are. And I think I understand what you're looking  
6 at, but can I just ask some clarifying questions to  
7 make sure I'm looking at the same thing you are?

8 CHAIRMAN MADDOX: Absolutely.

9 MR. HOFFMAN: I have the board book, and  
10 it's got a marked-up version of the charter. And  
11 then we got an email today, about three hours ago,  
12 that's got a different version marked up. Is the  
13 email version the one we should be looking at,  
14 number one? And number two, is that supposed to be  
15 showing differences from the draft we looked at in  
16 June?

17 CHAIRMAN MADDOX: The answer to the first  
18 question is yes. The emailed blue-line version is  
19 the operating document. It supersedes the blue-line  
20 version that's in the board book, is my  
21 understanding. I think that's correct.

22 MR. HOFFMAN: And what is it showing

1 changes from?

2 CHAIRMAN MADDOX: My understanding is that  
3 it's showing changes from the existing charter. I'm  
4 going to ask Vic Fortuno to confirm or correct me on  
5 that point.

6 MR. FORTUNO: Actually, what this document  
7 is is, starting with what came out of the June 25th,  
8 I think it was --

9 CHAIRMAN MADDOX: Correct.

10 MR. FORTUNO: -- telephonic meeting of the  
11 Audit Committee, what the Audit Committee approved  
12 in the way of revisions to the existing charter that  
13 would then be recommended to the full Board. That's  
14 what I started with; so starting with that as a  
15 clean document, incorporating all of those changes.

16 Then what you see here, the redlining,  
17 which appears as blue, is simply proposed revisions  
18 to what came out of the June telephonic meeting of  
19 the Committee.

20 CHAIRMAN MADDOX: So, David --

21 MR. HOFFMAN: Okay. And we hadn't seen  
22 this -- I mean, I know there had been an email

1 exchange, Vic, on one aspect of this, which -- I  
2 forget -- was in one part of Roman numeral VII and  
3 one part of Roman numeral VIII.

4 But I see now for the first time that there  
5 are a whole bunch of other changes throughout the  
6 document. And those -- I just want to make sure I  
7 understand this correctly -- those are changes that  
8 we're seeing today for the first time?

9 CHAIRMAN MADDOX: That was not my  
10 understanding, but I could be wrong on that, David.

11 MR. FORTUNO: I think that --

12 MR. SNYDER: Yes. Like I say, Vic, I had  
13 not seen those before until I opened up this one as  
14 far as being an advisory committee, and not even  
15 understanding what that means as far as limit of  
16 responsibilities. So those things I saw for the  
17 first time today.

18 CHAIRMAN MADDOX: Okay. Well, then, I  
19 apologize for that. I had the impression that that  
20 had been sent to you all some time last week.

21 MR. FORTUNO: It should be in the board  
22 book as --

1           MR. HOFFMAN:  It's not.  The board book has  
2 a version that shows more or less the changes that  
3 we were discussing on June 25th.  And it may include  
4 the one change about the external auditor that we  
5 had been discussing.

6           But I see from the document that we got a  
7 few hours ago that, as Paul says, in Roman numeral I  
8 it's a -- the board (sic) is now a board advisory  
9 committee.  Roman numeral II, the purposes of the  
10 Committee has some edits that are more than just a  
11 couple words.

12           And again, I'm not saying that any of this  
13 is problematic or controversial.  I just haven't  
14 seen it before.

15           CHAIRMAN MADDOX:  Well, my understanding  
16 about this, David, is that these changes you're  
17 seeing now are the effort that reflect an attempt to  
18 satisfy the concerns of the attorney -- that the  
19 Inspector General's office raised, and that these  
20 revisions were suggested as a result of Vic  
21 Fortuno's work in the last, I guess, week or so.

22           Is that right, Vic?

1 MR. HOFFMAN: Hello?

2 MR. FORTUNO: Over time, I think they were  
3 discussed.

4 MR. SNYDER: Yes. I thought it was just  
5 me. I've lost Victor.

6 MR. HOFFMAN: Yes. I can hear you, Paul.

7 MR. SNYDER: Vic, can you hear Paul or me?

8 CHAIRMAN MADDOX: I can. Can you hear me?

9 MR. SNYDER: Now we can.

10 MR. HOFFMAN: Yes. Now I can.

11 CHAIRMAN MADDOX: Okay. Vic was explaining  
12 the origin and facts behind these changes.

13 MR. FORTUNO: The Inspector General's  
14 office had provided a memorandum addressing or  
15 raising some concerns about the draft that resulted  
16 from the June telephonic meeting of the Committee.  
17 And I was asked to review that, and we thought that  
18 there were some fairly modest revisions that could  
19 be proposed that would address those.

20 I think that the chair of the Committee has  
21 discussed those with the IG to see if, in fact, they  
22 would satisfy the OIG's concern. And my

1 understanding is that there does seem to be a sense  
2 there that they do satisfy the concerns.

3           And most of these are -- for example, the  
4 comment about the board advisory committee: A board  
5 advisory committee is actually the terminology  
6 that's used in the D.C. Nonprofit Corporation Act.

7           So this would simply conform the charter to  
8 the new-this-year D.C. Nonprofit Corporation Act,  
9 which makes clear that there are two kinds of  
10 committees -- one, board advisory committees, and  
11 board committees, board committees having some  
12 executive authority and power to act on behalf of  
13 and bind the Board and the Corporation, and the  
14 board advisory committees being the eyes and ears of  
15 the Board, and studying issues, and making  
16 recommendations to the Board; but any action that  
17 binds the Corporation would be as the result of  
18 recommendation of the Committee to the Board and  
19 action by the full Board.

20           MR. KORRELL: This is Harry for one second,  
21 Vic. I think this might help the folks on the phone  
22 who are trying to sort out what we're looking at.

1 It looks to me, just doing a comparison of these,  
2 the markup at page 155 of the board book, that is  
3 the markup that the Committee came up, a markup of  
4 the existing charter.

5 MR. FORTUNO: That's right.

6 MR. KORRELL: And the new one that was  
7 circulated --

8 MR. FORTUNO: Accepts all of those things -  
9 -

10 MR. KORRELL: Right. So it accepts all of  
11 the changes that we had previously proposed, and  
12 makes some new ones.

13 MR. FORTUNO: That's right.

14 MR. KORRELL: And, I'm sorry, you were  
15 explaining the basis for the new changes.

16 MR. FORTUNO: Oh, no, no, no.

17 MR. KORRELL: I just wanted to make sure  
18 that's -- they're not two sets of changes now. The  
19 first set was accepted.

20 CHAIRMAN MADDOX: No. But the draft on  
21 page 155 is effectively superseded because these  
22 changes go beyond it.

1           MR. KORRELL:  Yes.  I just wanted to make  
2  sure that --

3           CHAIRMAN MADDOX:  So they've all been  
4  accepted.

5           MR. KORRELL:  Yes.  So the first round of  
6  changes accepted to create a new document, which has  
7  been marked up again.

8           CHAIRMAN MADDOX:  Right.

9           MR. KORRELL:  So if you wanted to see all  
10  of the changes to the original charter, you've got  
11  to look at the two documents together to have them  
12  tracked.  That's all.

13          CHAIRMAN MADDOX:  So, David and Paul, the  
14  draft in front of us now has language that, as Vic  
15  was saying, reflects our effort to accommodate the  
16  Inspector General's concerns raised in the last  
17  month or so.  And if it's language that you haven't  
18  seen before, I do not want to ask you all to vote on  
19  it since you haven't seen it.

20          MR. KORRELL:  I've been under the  
21  impression -- and Vic, maybe I'm just wrong -- that  
22  folks had sort of said, I think it sounds like a



1 good idea, or -- has anyone had any chance to look  
2 at or think about Vic Fortuno's attempts to satisfy  
3 the OIG or the folks on the phone saying --

4 MR. HOFFMAN: No. The only -- we did have  
5 -- there was an email exchange from Vic, maybe  
6 within the last week or two, relating to a  
7 suggestion of Paul's. But if I look at this  
8 correctly, I think it was in the new change to Roman  
9 numeral VII(1). Let me just scroll down here.

10 Yes. That was it. And we did have an  
11 email exchange about that. So I was, frankly, under  
12 the impression that -- I was expecting that we were  
13 going to see a new change today. But I was  
14 expecting that it would be a change on that one  
15 point. I did not know that we were going to see  
16 changes throughout.

17 I'm just reading them now, and look. Vic,  
18 I appreciate your being deferential to Paul and me  
19 if we're the two who haven't seen this before.  
20 Given that this process has been going on probably  
21 18 months now, and I know that all of us share the  
22 desire to bring closure to this, I'm happy to read

1 through it while we're on the phone and make any  
2 comments, if that's what you'd like.

3           So I certainly don't feel like I'm  
4 insisting on kicking it down the road to the next  
5 meeting. But I have not read this before.

6           MR. KORRELL: To me, it's important that we  
7 get David and Paul's input. They have more  
8 experience --

9           CHAIRMAN MADDOX: No. I agree.

10          MR. KORRELL: -- in these kinds of matters  
11 than the rest of us do, I think. And so I would  
12 like to -- not just a question of deference, but I  
13 would like to hear their comments. Whether we can  
14 accommodate that by maybe moving the Inspector  
15 General up and taking this up later in the meeting,  
16 or if we need to kick it over, I leave that to you.

17          CHAIRMAN MADDOX: Well, let's do this.  
18 Let's move to the next agenda item. David, Paul, if  
19 the time permits, I would recommend that we take a  
20 recess in the meeting for such time as you might  
21 need to review it.

22          It may be -- my own impression is that the

1 comments that you have not seen are not substantive  
2 in the sense that they change the fundamental nature  
3 of what we agreed in the charter discussion in June.  
4 But you may have a different view on that.

5 MR. SNYDER: And Victor, as far as I had a  
6 chance, once Rebecca called me to alert me to say,  
7 "There's these changes that you haven't seen," she  
8 was emailing it so I had a chance to read them.

9 I think the biggest question I just have is  
10 the understanding of a standing advisory committee  
11 and some of the wording that seems to indicate --  
12 and I guess maybe you referred to it earlier -- we  
13 don't have an authority like the other committees.

14 We'd be the only standing advisory  
15 committee of the various committees from the legal  
16 services, and I understand that probably is because  
17 David and I, as non-board members, are on the  
18 committee?

19 CHAIRMAN MADDOX: Right. Paul --

20 MR. SNYDER: And so --

21 CHAIRMAN MADDOX: Go ahead. I'm sorry.

22 MR. SNYDER: That's all right. Go ahead.

1           CHAIRMAN MADDOX: My understanding is that  
2 the language regarding advisory committee reflects  
3 the best judgment of the --

4           MR. SNYDER: You're fading again, Vic.

5           CHAIRMAN MADDOX: Can you hear me? I not  
6 doing anything different.

7           MR. SNYDER: Now I can hear you.

8           CHAIRMAN MADDOX: Reflects the best  
9 judgment of the Corporation's legal counsel  
10 concerning the requirements of the D.C. Nonprofit  
11 Corporation Act. It certainly reflects the concerns  
12 of the Inspector General insofar as the inclusion of  
13 non-board members on the committee who may be voting  
14 --

15           MR. SNYDER: I'm sorry, Vic. For some  
16 reason, I keep having you fade out.

17           CHAIRMAN MADDOX: I think the problem --  
18 (Pause to fix telephone problems.)

19           CHAIRMAN MADDOX: Before our interruption,  
20 I was providing you some erroneous information about  
21 the D.C. Nonprofit Corporation Act. So Vic Fortuno  
22 is going to correct that bit about the nature of the

1 Committee as an advisory committee to the Board.

2 MR. FORTUNO: And actually, I don't know  
3 that you were wrong at all. None of the Board's  
4 committees are executive committees. All of the  
5 Board's committees, current committees, are advisory  
6 committees.

7 The change is simply not to the nature of  
8 the Committee and its authority, but the D.C.  
9 Nonprofit Corporation Act, which was amended  
10 effective this year, uses new nomenclature. And so,  
11 for example, a committee of the Board is defined as  
12 an executive committee. And a committee of the  
13 Board, an executive committee, I believe, may only  
14 consist of directors.

15 An advisory committee, a term that they use  
16 in the new statute, conforms to what we have always  
17 referred to as our standing committees, which happen  
18 to be non-executive.

19 So the authority and role of the committee  
20 hasn't changed any. And the reference to advisory  
21 committee is used only for purposes, one, of  
22 clarifying, because I think the IG's office was

1 concerned that some of the language in the charter  
2 might suggest that the committee had executive  
3 functions. So it's just to address that and to  
4 conform to the new language of D.C. nonprofit  
5 corporation law in D.C.

6 But to be clear, this Committee is not  
7 different from others, as in others are executive  
8 and this one's advisory. No. All are advisory.  
9 All have been advisory. The only difference is,  
10 we're now starting to transition over to the new  
11 terminology, which is advisory committee to avoid  
12 confusion because the new statute defines "committee  
13 of the Board" as an executive committee.

14 CHAIRMAN MADDOX: Paul, does that address  
15 your concern?

16 MR. SNYDER: Yes. No, that is helpful, and  
17 thank you. Because as we went through under each of  
18 the major sections -- for example, on VIII(8), to  
19 say, "To best understand audits and audit-related  
20 matters in order to report to and properly advise  
21 the Board," it sounded like we push everything  
22 uphill.

1           And it sounds like that's something that we  
2 need to do to conform to the D.C. nonprofit code.  
3 So, like I say, I tried to research that on the road  
4 here before we got on this call to understand it,  
5 and I just couldn't do it.

6           So with that, I'll be honest with you. The  
7 rest of my questions and concerns with the thing I  
8 received today have been answered, and I have a  
9 better understanding of the changes that were made,  
10 and have no problem with them.

11           CHAIRMAN MADDOX: Okay. Let me ask the  
12 Inspector General to give us his thoughts. I know,  
13 from discussions before the meeting, that there are  
14 a couple of concerns that his office still has with  
15 the draft.

16           So Jeff, if you could address those. Thank  
17 you.

18           MR. SCHANZ: Sure. This is Jeff Schanz,  
19 the IG. First I'd like to commend all the work  
20 that's been done on this. I know it's like watching  
21 sausage being made. But at the end, I think we have  
22 a product that we can all agree with and will serve

1 as a very good legacy document for future boards and  
2 future audit committees.

3 I only want to talk a little bit about the  
4 alternative formulations. I think the rest of it --  
5 and based on Victor Fortuno's explanation of the  
6 need to conform with the D.C. Nonprofit Act, that  
7 would take care of any of the legal concerns that we  
8 had.

9 I do want to talk about page 2. I'm not  
10 sure what the board number is. But it's Section  
11 VII, Authority. There was an alternative  
12 formulation there that I really don't think is  
13 necessary.

14 We can discuss that as needed, but I  
15 believe that the VII(1) talks about -- and I not  
16 going to read it to you -- but it satisfies my  
17 concerns, my independence concerns, about overseeing  
18 the selection and retention of the external auditor.

19 That is our job. It can be your job. But  
20 you cannot really oversee our functionality in  
21 selecting the independence. Now, doing the  
22 confirmation, we look at the peer review. We look



1 at their financial reports. The Committee is  
2 welcome to absorb those functions. But I don't see  
3 that, from a resource point of view, that would be  
4 necessary.

5 So I think (1), as revised with the  
6 blueline, is absolutely perfect. And that reflects  
7 the process that we currently use leading up to our  
8 October 4th entrance conference with the external  
9 auditor.

10 We've done all those things and are very  
11 comfortable with the ability of the external auditor  
12 to be able to provide, on a timeline -- hopefully we  
13 can keep to it this year -- of the Corporation's  
14 assets and financial statements.

15 So my recommendation is VII(1) is fine as  
16 amended.

17 CHAIRMAN MADDIX: Jeff, let me ask you,  
18 just before we go on, because it might be helpful to  
19 address this paragraph by paragraph. And I don't  
20 mean to be argumentative.

21 But if I understood the earlier memoranda  
22 that you provided in our discussion back in June, if

1 the Board chose to make the selection of the  
2 external auditor its responsibility rather than the  
3 IG's, the Board could do that.

4 MR. SCHANZ: It has that plenary authority.

5 CHAIRMAN MADDOX: And we have that history  
6 where the process became part of your portfolio back  
7 in the '90s through sort of a mysterious process of  
8 osmosis, I think would be a good description.

9 MR. SCHANZ: Since none of us were here  
10 then, that's probably accurate.

11 CHAIRMAN MADDOX: Right. Okay. That just  
12 sort of is a technical proposition.

13 So with that clarification, I don't know if  
14 there's any need for us to discuss this what I think  
15 is a somewhat minor point or not. But let me ask  
16 the board members, or the committee members, if  
17 there is discussion about Section VII(1) versus  
18 Section VII(1)'s alternative formulation.

19 Is there a preference? Are there concerns  
20 that the alternative formulation includes ideas or  
21 authorities that are not, in substance, present in  
22 the other drafted language?

1           MR. SNYDER: You know, Vic, I guess I'll  
2 just weigh in. And obviously, I drafted the  
3 alternative. But being on two corporate audit  
4 committees and looking at what we do there, I think  
5 the key for me was that we delineated or specified  
6 that we were going to annually review and discuss  
7 it, as opposed to unless otherwise directed.

8           And I think also, as most independent audit  
9 committees under Sarbanes-Oxley, they report to the  
10 full board what their selection was and their  
11 assessment of the qualifications of the auditors to  
12 fulfill their responsibilities to the Corporation.

13           So I look at two key responsibilities of  
14 the audit committee on behalf of the board. So that  
15 was the reason I drafted the alternative  
16 formulation.

17           CHAIRMAN MADDUX: Paul, do you see your  
18 alternative formulation language as including  
19 authorities that are not otherwise encompassed in  
20 the language in the paragraph that it would  
21 substitute for?

22           MR. SNYDER: No. I think all we're saying

1 is we're annually going to review and discuss with  
2 the Inspector General the selection. So we're not  
3 saying we're going to override.

4 But I do think -- we do say in there we're  
5 going to provide the Board with our assessment,  
6 which if we got to the conclusion we didn't think  
7 the person or the firm was qualified, we'd have to  
8 say that. I'm assuming that will never happen  
9 because I think the OIG goes through, you know, a  
10 proper selection process.

11 But I think the Board and the Audit  
12 Committee has a obligation to understand the  
13 qualifications of the external audit firm. And they  
14 can't just totally put that out to the OIG without  
15 putting out an adequate follow up. But that's one  
16 person's view.

17 CHAIRMAN MADDOX: Well, I appreciate it.  
18 For instance, the language in the preceding  
19 paragraph, in the non-alternative paragraph, says to  
20 keep fully and currently informed. I would think  
21 that would require an annual examination of the  
22 process since we select, or at least we confirm the

1 auditor, I think, on an annual basis.

2 Now, Paul, my preference earlier in the  
3 week was for your alternative formulation because I  
4 think it's more explicit. I think that -- let me  
5 ask the IG this, frankly.

6 Is there an objection in your office, Dutch  
7 or Jeff, Laurie, whomever, to the language in the  
8 alternative concerning, "Review and discuss with the  
9 Inspector General," because that seems to be, in my  
10 look at the language, the principle difference  
11 between the two formulations.

12 In the first paragraph, we as a Committee  
13 keep ourselves fully informed. And presumably, we  
14 have the power, then, to tell the Board whatever we  
15 think we want to tell them.

16 In the alternative formulation, it's  
17 explicit that we keep ourselves fully informed by  
18 reviewing and discussing with the IG. I'm not sure  
19 if you all have an objection to that formulation or  
20 if there's something more broadly you object to.

21 MR. MERRYMAN: This is Ronald Merryman, an  
22 assistant inspector general for audit. My only

1 concern with that is it's one of the questions that  
2 generated a look at the whole charter is, how is  
3 that going to be done? What is the information need  
4 that you will have in order to do an assessment of  
5 it, as opposed to just review and provide your  
6 opinion?

7 I'm always concerned about the steps from  
8 the standpoint to make sure there's a structure  
9 behind it. If there's information that you need or  
10 that we have to provide, what is that information?  
11 What is your expectation?

12 So my concern with that one was not that  
13 you provided an assessment; just how is it going to  
14 be done? And if it's just simply to review our  
15 work, I'm not sure what that means, or just have a  
16 discussion with us by -- we follow the GAO and the  
17 Inspector General financial manual on relying on the  
18 work of others, FAM 650 short-term.

19 There's steps in there for the work that we  
20 do to look at the independence of the auditor. We  
21 look at the qualifications, obviously, in detail  
22 when we do the selection process to let the

1 contract, before we let the contract, and validate  
2 the selection process, or validate the  
3 qualifications.

4           So it would be more of -- as opposed to  
5 doing it is how are you going to do it so we can put  
6 the system in place?

7           CHAIRMAN MADDOX: Right. But, Dutch, I  
8 mean, if we were to, as a Committee, keep ourselves  
9 fully and currently informed regarding the selection  
10 and retention of the auditor, that would require, I  
11 think, necessarily that we make some assessment of  
12 the independence of that auditor because that's one  
13 of the fundamental aspects of the selection or  
14 retention.

15           And for us, then, to do that fully and keep  
16 ourselves fully and currently informed, wouldn't we  
17 have to discuss and review the process with the IG's  
18 office?

19           MR. MERRYMAN: If that is the extent of the  
20 assessment, I have no problem with that. But if you  
21 need more information, what is it that we would have  
22 to provide beyond that for an assessment, to make

1 your own assessments?

2 CHAIRMAN MADDOX: Right. Harry?

3 MR. SNYDER: Vic, the only thing I would  
4 say is that when we go through that, I think the  
5 goal is that we work together on this and we work in  
6 a reasonable fashion. I think when you look at  
7 VIII, Duties and Responsibilities, every one of  
8 those is "Review and discuss."

9 Like "Review and discuss with the OIG all  
10 significant matters relative to audits performed" --  
11 I mean, we're going to talk about what the  
12 significant matters are. We're not laying out in  
13 this charter a significant matter and putting down a  
14 definition and step by step what's going to be  
15 performed.

16 So I think what we put in the alternative  
17 language is very consistent with what's been  
18 accepted down below in the duties and  
19 responsibilities.

20 MR. KORRELL: And I think this may repeat  
21 your concern or your response, Vic. But if the  
22 objection -- and I'm not suggesting it's a strong



1 one -- but if the OIG's objection to the alternative  
2 is that it doesn't lay out enough of what we're  
3 going to do to review, discuss, and assess, as I  
4 read these two formulations, we're still going to  
5 review, discuss, and assess under number (1).  
6 Number (2) is more explicit.

7           CHAIRMAN MADDOX: Right. That was my  
8 impression, Harry and Dutch. I don't see how we  
9 keep ourselves fully and currently informed without  
10 reviewing and discussing. As Paul says, the concept  
11 of review and discussion between the Committee and  
12 your office is replete throughout our various duties  
13 and responsibilities.

14           So it seems to me there are two possible  
15 concerns in the alternative formulation. One is  
16 review and discuss the selection, and two is provide  
17 an assessment of qualifications and independence.  
18 And I don't know if it's just the detailed  
19 explication of those concepts that is troublesome,  
20 or if it's the actual substantive process of us, in  
21 essence, looking over the IG's shoulder.

22           MR. MERRYMAN: First of all, I didn't

1 expect the procedures to be in the charter, just the  
2 Committee to be mindful of what it is that the  
3 expectation would be so it could be communicated so  
4 that we would know what is expected.

5 CHAIRMAN MADDOX: Sure.

6 MR. MERRYMAN: So from the standpoint, I  
7 wasn't objecting to this being here, nor was I  
8 expecting detailed steps to be laid out here. But  
9 part of the reason we're visiting the charter was  
10 the question, how are we going to do all this? And  
11 so I just wanted to make sure that was forefront.

12 What does this entail, and please  
13 communicate it to us --

14 CHAIRMAN MADDOX: Right.

15 MR. MERRYMAN: -- so we can make sure --  
16 you know, we can either accomplish it or, any  
17 concerns, we can talk about it. But yes, most  
18 definitely review and discuss, no problem. If you  
19 could make your assessment on that and that's how  
20 it's going to be done, that's your choice. If you  
21 want something more involved, what is that? That  
22 needs to be communicated at some point in time.

1           The other thing is the word "recommended,"  
2 the auditor "recommended" by the IG.

3           MR. FORTUNO: That was a question I had,  
4 was whether, if the Committee adopts that, you have  
5 what appears to be conflicting terminology. The  
6 second line uses "the selection and retention of the  
7 auditor by the IG," and then the last line refers to  
8 "the auditor recommended by the IG." So I think you  
9 would want to reconcile those two before adopting  
10 this kind of formulation.

11           CHAIRMAN MADDOX: And as it currently  
12 stands, the IG actually selects and retains the  
13 external auditor, with the implicit or explicit  
14 acquiescence of the Board because we've in essence  
15 delegated, or at least ceded, that authority until  
16 we take it back. So that language, if we adopted  
17 the alternative formulation, would have to be  
18 changed, I think.

19           MR. SNYDER: Right. I agree.

20           CHAIRMAN MADDOX: Okay. Dutch, just let me  
21 make sure I understand. What I've tried to say from  
22 the outset today is, I don't see a substantive

1 difference between the two formulations in terms of  
2 how the Committee would approach the process of  
3 informing ourselves and reaching some judgment about  
4 the extent to which the external auditor, who has  
5 been retained by the IG, is independent, and then  
6 whatever sort of evaluation we want to provide to  
7 the full Board.

8           And if it's just because there is some  
9 objection to what amounts to a more detailed  
10 statement about what that process would involve, I  
11 think I can live with either one of those. I want  
12 to make sure that Paul and David and Harry have the  
13 same impression.

14           But my sense is, and I'm certainly willing  
15 to be corrected, that whether we go with either one,  
16 the process that we undertake, whatever it involves  
17 and whatever degree of detail and whatever level of  
18 information it requires, is fundamentally no  
19 different in either formulation.

20           MR. MERRYMAN: And that's fine. Again, my  
21 point in pointing out the alternate is that if there  
22 is something else -- not that I expect you to put

1 detailed procedures in the charter -- but if there  
2 is something that you're looking for, what you need  
3 other than review and discuss and of course we'll  
4 provide information that you require, then you need  
5 to think about the procedures that's going to be  
6 necessary to be in place at some point in time in  
7 order to provide your assessment.

8 CHAIRMAN MADDOX: Sure. But those  
9 procedures don't need to be part of our chart.

10 MR. MERRYMAN: No, no, no. I was just  
11 pointing it out that with the alternate, it would  
12 require those -- in my mind, if it was a lot more  
13 than the review and discuss, it would require some  
14 type of "How are you going to do that?" type of  
15 thing.

16 CHAIRMAN MADDOX: So to that extent, then,  
17 if the Committee's preference were for the  
18 alternative formulation that Paul Snyder drafted,  
19 with the correction of the language regarding the  
20 recommendation, would the IG -- would you all then  
21 still have a substantive or principled objection to  
22 the adoption of that language?

1           MR. SCHANZ: No. I think that would be at  
2 the behest of the Committee. Once again, as a  
3 practical matter -- and this is what concerns me  
4 because -- I won't use a trite phrase, but maybe I  
5 will. It's like pulling hen's teeth to get the  
6 Committee together.

7           We have an entrance conference coming up,  
8 and everybody's busy. And it's October 4th, and  
9 numerous members of the Committee won't be at the  
10 entrance conference. And that's usually --

11          MR. KORRELL: With all due respect, Jeff,  
12 being given a one-hour slot or two-hour slot when  
13 it's available doesn't make it easy on us to find  
14 that time.

15          MR. SCHANZ: No. I am aware. But we're  
16 looking --

17          MR. KORRELL: Some advance consult does  
18 make it easier to juggle schedules to participate in  
19 that kind of thing.

20          MR. SCHANZ: No. I am aware, and I'm  
21 trying to just point out there are some practical  
22 realities here in trying to get the Committee

1 together. So I think Dutch's point of view, and one  
2 that I endorse, would be that we can do all of the  
3 groundwork, and if you want to take the time to  
4 assess all of our groundwork in the selection  
5 process, that's your prerogative.

6 But the point I'm trying to make is we're  
7 on a tight timeline, particularly with the financial  
8 statement audit, and we've not met it yet since I've  
9 been here because we have other statements coming in  
10 or a difference in ending trial balances or  
11 something like that, or less that confident  
12 auditors. We just haven't been able to make the  
13 timeline that we've tried to anticipate when we let  
14 the contract.

15 MR. KORRELL: Mr. Chairman, could I ask a  
16 question of the OIG?

17 CHAIRMAN MADDOX: Sure.

18 MR. KORRELL: We keep -- I hear what Dutch  
19 has said, and I understand it. I just don't  
20 understand how the concern about not having laid out  
21 or not having thought about yet what these  
22 procedures are going to be is any different for

1 alternative than for the current.

2           And the same comments that I think the OIG  
3 is making about, you know, we're going to need to  
4 think in advance and let the OIG know what kind of  
5 information we're going to need, is the same for our  
6 desire to keep fully and currently informed.

7           CHAIRMAN MADDOX: Right.

8           MR. KORRELL: To me, if that's the only  
9 issue, it doesn't seem that that takes one or the  
10 other any more.

11           CHAIRMAN MADDOX: Right. Well, that was  
12 why I formulated the question that way. If the  
13 Committee's preference is for the alternative  
14 formulation language, as modified by the recommended  
15 part, is there a principled or substantive objection  
16 from the IG's office?

17           I mean, maybe on reflection there is. I  
18 didn't hear one a moment ago. But I also appreciate  
19 Jeff's concern that timing is important. The  
20 deadlines come quickly. As far as the entrance  
21 conference goes, we've got two members of the  
22 Committee committed to -- three members of the



1 Committee committed to attend that conference on  
2 October 4th.

3           So I don't anticipate that we need to have  
4 a quorum of the Committee for any of your work,  
5 frankly. I mean, if one member of the Committee  
6 shows up, I think that is -- in some respects  
7 that'll be fine from time to time.

8           If your office gives us the kind of notice,  
9 Dutch, that you've given me routinely and the  
10 Committee chooses to pass, then I think you can mark  
11 it down in the file and march ahead because the last  
12 thing this Committee wants to do is to impede the  
13 effective, efficient operation of your work. I  
14 mean, we just don't want to do that. We're not  
15 going to do that.

16           So having said all that -- and Jeff, I  
17 appreciate your concerns for timing -- I don't want  
18 to constrain the Committee if the preference is for  
19 the language that Paul formulated because I think  
20 Paul gave it a good bit of thought. And if the  
21 Committee's preference is not offset by some  
22 countervailing, override concern by the IG's office,

1 I want the Committee to work its will.

2 So I don't know what the Committee's  
3 preference is. I indicated informally that my own  
4 preference was for the alternative language just  
5 because I think it does a better job of articulating  
6 the nature of what an effective audit committee  
7 review would involve.

8 In particular, the concept that as a  
9 Committee, I think we fundamentally are charged with  
10 providing the Board with our own assessment  
11 independent, if you will, of the qualifications and  
12 independence of the external auditor selected and  
13 retained by the Inspector General.

14 Harry?

15 MR. KORRELL: No. This whole process  
16 started, actually, two years ago at our October  
17 meeting. It was my first meeting of the Board as a  
18 confirmed board member.

19 CHAIRMAN MADDOX: You had to remind me?

20 MR. KORRELL: Sorry.

21 CHAIRMAN MADDOX: Not that you were  
22 confirmed, but that that's when the process started.

1           MR. KORRELL: No, no, no. Well, my comment  
2 wasn't so much about the length of time this has  
3 taken, but rather the impetus for it was that we  
4 wanted some -- the board members or committee  
5 members who were concerned wanted some clear  
6 direction.

7           Because we looked at the charter and  
8 thought, goodness. We don't do some of this stuff.  
9 This is beyond our capabilities, our scope. Some of  
10 overlaps. I prefer the alternative simply because  
11 it tells us, and subsequent neophytes to the Audit  
12 Committee, what they need to be doing. And I just  
13 prefer that.

14           MR. HOFFMAN: Vic, this is David.

15           CHAIRMAN MADDOX: David?

16           MR. HOFFMAN: Sorry.

17           CHAIRMAN MADDOX: Go ahead, David.

18           MR. HOFFMAN: My number one vote was for  
19 the language as we had in the version we were  
20 looking at in June. My second preference is for the  
21 alternative formulation as it exists here. And I  
22 would vote for that instead of the version that the

1 IG has edited in number one, for the reasons stated  
2 by Paul.

3 And if I could just jump in and make a  
4 general comment that follows up on what Harry said  
5 about how long this has taken. You know, we all  
6 listened for many meetings and many phone calls  
7 about the concerns from the IG and others.

8 This is all incredibly theoretical and  
9 hypothetical, and it will be theoretical and  
10 hypothetical until we vote on this, hopefully today,  
11 and we actually start working through a process of,  
12 on a regular basis, requesting information, having  
13 discussions with the IG that are based on this  
14 framework so that we can review and assess in a  
15 variety of ways.

16 And it'll always be available to the IG --  
17 no matter what this charter says, it will always be  
18 available to the IG to say, I'm sorry. Your asking  
19 for that information is somehow restricting my  
20 independence. I don't want to give that to you.  
21 And we may have those discussions with them.

22 But we can't get to that point of

1 determining how this is actually going to work until  
2 we get this in place. And we can talk endlessly  
3 about their and other people's theoretical concerns  
4 about what might happen and how it might be a  
5 concern.

6 But I believe that all of us on this  
7 Committee are not only responsible and reasonable  
8 people, but people who respect greatly the work and  
9 independence of the IGs. And we want to conduct  
10 these reviews and assessments in a way that doesn't  
11 restrict it.

12 Time will tell whether that happens. But  
13 my feeling is, let's get it going, and enough with  
14 these really theoretical concerns because the kind  
15 of concerns that are being raised could come up  
16 almost no matter what the language is.

17 So sorry to give a little speech there on  
18 the general topic. But I wanted to express my  
19 feelings about it, and as to VII. And in the  
20 meantime, I've been looking at the rest of this  
21 language, and I've got a couple of comments on the  
22 other alternative formulations in one or two other

1 places But as to Roman numeral VII(1), I am going  
2 to be in favor of the alternative formulation.  
3 Thank you.

4 CHAIRMAN MADDOX: Thank you, David. We're  
5 going to take a vote at the end of this. I think  
6 that the Committee is unanimous in its preference  
7 for the alternative formulation language.

8 I would propose that that language, as in  
9 front of us, be amended by striking the word  
10 "recommended" in the last line and adding "selected  
11 and retained," so that it reads, "Shall provide the  
12 Board with its assessment of the qualifications and  
13 independence of the external auditor selected and  
14 retained by the Inspector General," or, "by the IG."

15 So if there's no objection to that  
16 amendment, at the end of the process we'll be voting  
17 on the draft language. And Vic, I would ask that  
18 that change be made. I understand that we're going  
19 to be able to have the final version for the Board  
20 tomorrow in final, un-redlined form.

21 So let's go on, if we can. I appreciate  
22 everybody's comments and concerns. Dutch, I gather

1 that in light of the discussion here, that's not a  
2 resolution that you're going to have some  
3 overarching objection to. Okay.

4 The next section where there is any kind of  
5 question about formulation is Section VII,  
6 Authority, Section VII(2), where there is again  
7 alternative language or alternative formulation.  
8 The language in the actual drafted paragraph comes  
9 from our June 25th discussion, I believe, the  
10 alternative formulation. Vic, can you tell us where  
11 that comes from?

12 MR. FORTUNO: I believe it was Paul as  
13 well. Do I have that right, Paul?

14 MR. SNYDER: You know, Vic, I no longer  
15 remember. I know we were messing around with this,  
16 and looking at it, I may have offered a suggestion.  
17 But it was just trying to, I think, work past an  
18 issue that we had with (2). So I may well have  
19 suggested it.

20 CHAIRMAN MADDOX: Yes. Let me ask the IG  
21 what your thoughts are --

22 MR. HOFFMAN: This is David, if I could

1 jump in. I don't know whether Paul has -- whether  
2 there have been exchanges since June that I haven't  
3 been involved in. The only one I've seen that has  
4 involved a recommendation from Paul related to the  
5 language we just discussed in VII(1).

6 This alternative formulation in VII(2) is  
7 the same language that the IG recommended for this  
8 provision prior to our June meeting that we had a  
9 lengthy discussion about, comparing this to what's  
10 there in (2), and that we voted down this  
11 alternative formulation.

12 I see now that the alternative formulation  
13 is back. I assume it's kind of in a motion for  
14 reconsideration, that the IG's office again wants us  
15 to consider it. Frankly, I've considered it and I  
16 know that we have considered it previously.

17 If people have changed their minds,  
18 obviously people can speak up and are entitled to  
19 it. But looking at what we have as (2) and the  
20 alternative formulation, my vote is for the (2) as  
21 it is written in the text and not for the  
22 alternative formulation.



1           CHAIRMAN MADDOX: Jeff, can you all -- or  
2 Jeff or Dutch or Laurie, can you all address this?

3           MS. TARANTOWICZ: Yes. This is Laurie  
4 Tarantowicz, counsel to the OIG. We would prefer  
5 the alternative formulation, although we also had  
6 tweaks that we were going to suggest to that. And  
7 if I could, I would just read it to you. It would  
8 be in the last --

9           (Pause to resolve telephone problems.)

10          CHAIRMAN MADDOX: Go ahead, Laurie.

11          MS. TARANTOWICZ: I was mentioning that the  
12 IG's office has a preference for the alternative  
13 formulation of this paragraph (2) in Section VII.  
14 We would ask for minor edits to that formulation.  
15 And so it would read -- the phrase at the end would  
16 read, "and to such access to OIG records,  
17 facilities, and personnel as permitted and  
18 appropriate under the IG Act and other applicable  
19 law."

20                 And we are concerned about two things --  
21 one, that there are some items that may not be --  
22 that may be permitted, or may not be addressed in

1 the IG Act, whether it's permitted or not, but  
2 access might not be -- it might not be appropriate,  
3 in other words. An example would be if we are in  
4 the midst of an investigation. Whether or not we  
5 would want to share information would be something  
6 that we would consider on a case-by-case basis.

7 And the second suggestion, adding other  
8 applicable law, would just be to cover us if there  
9 are instances such as would be the case with grand  
10 jury material, that there is another law that  
11 prohibits or does not permit access to material in  
12 the possession of the IG.

13 CHAIRMAN MADDOX: Wouldn't the IG Act give  
14 you authority to withhold information if it was part  
15 of an ongoing investigation?

16 MS. TARANTOWICZ: Well, I would certainly  
17 read the IG Act to do that. There is no specific  
18 section in the IG Act that addresses that, and I  
19 guess that's been our concern from the beginning  
20 with the formulation, and the original formulation,  
21 that says that it is prohibited by law from sharing  
22 with the Board; that there is nothing in the IG Act

1 that prohibits us from sharing information other  
2 than information we receive from complaints, from  
3 confidential complainants.

4 But there's other information that we  
5 routinely do not share with the Board. We provide  
6 information on investigations when we deem it  
7 appropriate. We certainly want to keep the Board  
8 fully and currently informed of all appropriate  
9 information; but there's just some information that  
10 we need to keep to ourselves until, for instance, an  
11 investigation is completed.

12 MR. SNYDER: So Vic, I'm sorry.

13 CHAIRMAN MADDOX: Go ahead, Paul or Harry.

14 MR. SNYDER: No. I just was going to ask,  
15 just to clarify. Is (2), the alternative  
16 formulation, is that the recommendation of the OIG?  
17 Or is the OIG recommendation what is currently  
18 stated in (2)?

19 CHAIRMAN MADDOX: The alternative  
20 formulation, as amended by the additional language  
21 that Laurie just mentioned, is the OIG's  
22 recommendation, as I understand it. I think David

1 has reminded us that we basically discussed and  
2 rejected that language at our June 25 meeting in  
3 preference to the language that you see in paragraph  
4 (2).

5 MR. SNYDER: Okay. Thank you.

6 MS. TARANTOWICZ: And I should say, we also  
7 -- if I might add for a moment, we also have a  
8 concern that this provision might dissuade people  
9 from coming to us with information; if they feel  
10 that we cannot keep information confidential but are  
11 required to provide information to the Committee and  
12 the Board, that it might have a chilling effect on  
13 people approaching the IG's office with information.

14 CHAIRMAN MADDOX: On that point --

15 MR. HOFFMAN: This is David. And I have to  
16 say, I find that comment unfair. Obviously,  
17 everybody, and especially people who have worked as  
18 or for IGs, and certainly everyone on the Board  
19 understands and appreciates the need at times to  
20 keep information confidential.

21 But nothing changes the fact that despite  
22 the fact that the IG pushes against this, the

1 statute says that the Board shall exercise general  
2 supervision over the IG. That is not true of every  
3 IG in the Federal Government; that is true of some I  
4 guess, and that is true of the LSC.

5           The Board exercises general supervision,  
6 and it is entitled to get information from the IG  
7 except to the extent that the IG believes that it  
8 cannot provide that information. And that's what  
9 the language of Section (2) says. If you, the IG,  
10 believe at some point that you are not allowed to  
11 provide certain information to the Board, then it  
12 protects you.

13           And obviously, if you believe that the law  
14 does not prohibit -- you provided information, but  
15 you think it's unadvisable, then you should say  
16 that. And the idea that anyone on the Board would  
17 turn a deaf ear to that strikes me as completely  
18 inconsistent with everything -- the way everyone has  
19 acted on the Board.

20           And I don't see anything about -- and  
21 frankly, I am concerned, given the dynamic that I've  
22 observed in the last six to nine months and what we

1 studied from the Fiscal Oversight Task Force, I am  
2 concerned that the alternative formulation language  
3 will be used to conceal significant information from  
4 the Board that it's entitled to get to figure out  
5 appropriately, without getting into confidential  
6 investigative information, in order to determine  
7 whether the control environment for LSC is operating  
8 properly.

9           And that's all that I believe the Board and  
10 this Committee are trying to do, is an attempt to  
11 get what will probably turn out to be fairly basic,  
12 general information to determine how things are  
13 operating.

14           So I wasn't aware that we were going to be  
15 discussing this again. I hadn't seen this draft  
16 before today. We discussed this at great length  
17 both at and prior to the prior meeting. I'm hearing  
18 again the same arguments that we heard before.

19           And for the reasons that I've said and the  
20 reasons we've discussed before, I urge the Committee  
21 to vote for the language that's set out here and not  
22 the alternative formulation. And I think to the

1 extent the IG concerns, those can be raised on a  
2 case-by-case basis.

3 But knowing who we're dealing with here,  
4 I'm confident that you're going to be fine. You're  
5 going to be not only pleasantly surprised but very  
6 pleased in terms of the way these dealings occur.

7 CHAIRMAN MADDUX: Thank you, David.

8 Laurie, let me just go back to your point a  
9 moment ago. The concern that someone might be  
10 dissuaded from bringing information to the IG's  
11 office out of fear that it would be disclosed to the  
12 Committee, in the language that's part of the  
13 proposed language, not the alternative formulation,  
14 it says, "except with regard to confidential  
15 information in the possession of the IG that it is  
16 prohibited by law from sharing with the Board."

17 Wouldn't any information brought to you on  
18 a confidential basis by an employee of the  
19 Corporation or a grantee be information that,  
20 because it was brought to you in a confidential  
21 capacity, could be withheld under the IG Act?

22 MS. TARANTOWICZ: I think the IG Act only

1 states that the identity of employees of the  
2 Corporation that come to the IG's office would be  
3 protected from disclosure.

4 CHAIRMAN MADDOX: And so the theoretical  
5 proposition that someone who brought information to  
6 you would have the information disclosed to the  
7 directors of the Corporation, even though their  
8 identity would not be disclosed, you think presents  
9 a realistic concern that someone would be dissuaded  
10 from bringing that information?

11 I'm not quite sure why that would be the  
12 case if they had confidence that their own identity  
13 would be kept confidential.

14 MS. TARANTOWICZ: Well, I also think that  
15 the section of the IG Act only talks about employees  
16 of the Corporation. It doesn't talk about other  
17 persons who come to the IG's office with their  
18 information.

19 CHAIRMAN MADDOX: So is the concern, then,  
20 that like the fraud awareness hotline, its  
21 effectiveness might be somehow undermined? I mean,  
22 that would be one way in which confidential



1 information might be brought to the IG's office.

2 MS. TARANTOWICZ: Right. The hotline.

3 That's one of our concerns. Right.

4 CHAIRMAN MADDOX: Okay. Harry?

5 MR. KORRELL: Mr. Chairman, for Laurie

6 again.

7 Is there some provision of law that you  
8 think authorizes or permits the OIG to insist on the  
9 confidentiality of that information apart from the  
10 IG Act?

11 MS. TARANTOWICZ: Is there some provision  
12 of law that specifically addresses it? No.

13 MR. KORRELL: So is this -- it sounds like  
14 what the IG's office is trying to do is to carve out  
15 for itself a discretion to refuse to disclose  
16 something -- again, assuming, I think, unlikely that  
17 we have a disagreement about whether it's  
18 appropriate to disclose -- but if the Board wants  
19 information and the OIG doesn't want to share it and  
20 wants to be able to preserve this discretion,  
21 despite the fact that there's not another provision  
22 of law that keeps it confidential?

1 MS. TARANTOWICZ: Right. I think that --  
2 the reason that I brought up the point about  
3 dissuading people from going forward is because this  
4 would be a provision in the charter.

5 And then I understand, and I think we all  
6 appreciate, that in practical terms, that we would  
7 work together going forward, and I don't think that  
8 anything that we've said or done should be read as  
9 suggesting otherwise.

10 But the fact is that somebody not involved  
11 in that process, but from the outside providing  
12 information, might read this provision and have  
13 concerns about unrestricted access to OIG  
14 information, which traditionally we have had -- you  
15 know, it's been within the discretion of the IG in  
16 terms of what information is appropriate for  
17 disclosure in those sensitive situations.

18 MR. KORRELL: Thank you. I do think it  
19 unlikely that anyone is going to actually read our  
20 charter, beyond those of us in the room. But that  
21 answers the question. Thank you.

22 MR. SCHANZ: Well, I do provide -- this is

1 the IG -- I'd provide briefings to the Board twice,  
2 once in open session and once in closed session.  
3 Reiterating myself, I also talk with the President  
4 of the Corporation when something seems amiss.

5           And I don't have the authority to report  
6 draft reports because the auditee has not had an  
7 opportunity to comment on our findings and our  
8 recommendations. And that's their due process  
9 protection built into the Yellow Book and build into  
10 law.

11           So we don't issue things like that. And  
12 there are some prohibitions that -- I do have  
13 problems with unrestricted access. I don't believe  
14 the Board needs unrestricted access if they have  
15 faith in the work of the IG.

16           MR. KORRELL: Nothing in our charter is  
17 going to change the law. If the laws provides that  
18 this stuff is confidential or prohibits you from  
19 sharing it with us, we're not going to change those  
20 legal obligations by what we say we want to have in  
21 our charter.

22           CHAIRMAN MADDOX: And Jeff, my thought is

1 that insofar as your concern is for draft audit  
2 reports, which I think is a perfectly appropriate  
3 concern, my understanding, limited as it is, of the  
4 IG Act and the regulations and the procedures that  
5 are basically part of all that provide that you can  
6 appropriately withhold that not only from the  
7 Committee but from the Board while it's a draft.

8           And so to the extent that that is the case,  
9 the language that we want to adopt here, I think,  
10 says, "except with regard to confidential  
11 information in the possession of the IG that is  
12 prohibited by law from sharing with the Board."

13           So unrestricted access does not mean that  
14 the qualifying clause at the end is overridden. I  
15 think it means just the opposite. It's unrestricted  
16 except to the extent that the law provides  
17 otherwise, as I think Harry just suggested.

18           So I fully appreciate your concern for the  
19 confidentiality of that important work, and I fully  
20 appreciate Laurie's concern for having people bring  
21 confidential information. I don't see, however,  
22 that there is what I view as a realistic imposition

1 on the power of your office or the effectiveness of  
2 your office by the language that we're proposing.

3           And I don't think that we as a Committee,  
4 and ultimately as a Board, want to include  
5 discretionary concepts like "as appropriate" in our  
6 charter because basically, it amounts to a veto for  
7 the IG, which I doubt that your office would want to  
8 give us over things that you believe are  
9 fundamentally part of your area.

10           So I think that David Hoffman has made, I  
11 think, a compelling argument. And I don't mean to  
12 give short shift to your own concerns. But my own  
13 view is that the language that we have, not the  
14 alternative formulation, is the appropriate  
15 language.

16           And had I realized that we had effectively  
17 rejected that at our June meeting in favor of the  
18 language that we have, I probably would have  
19 recommended in advance that we not use the  
20 formulation, the alternative formulation.

21           As we did in the previous paragraph,  
22 though, having said all that, I want to ask you, is

1 there some fundamental substantive concern that you  
2 can articulate that you think the language as we've  
3 got it proposed, recognizing as it does that it  
4 provides what amounts to an open-ended exception for  
5 confidential information that is prohibited by law  
6 from sharing with the Board -- is there some  
7 substantive concern that that language would  
8 effectively impede your office?

9 MR. SCHANZ: No. Based on the work that's  
10 been done in the revision of this that got away from  
11 "oversee" and "supervision" and those things,  
12 reading it in that context, this is different.

13 Having the prior iteration of this talking  
14 about overseeing and general supervision, this is  
15 just, to me, another nail in the coffin. But at  
16 this point, since the work that's been done by this  
17 Committee on the charter and modifying many of my  
18 concerns, this could be the prior iteration.

19 CHAIRMAN MADDOX: Okay. Well, I think  
20 that's very helpful. I think it does come in a  
21 different context than it came in June.

22 MR. SCHANZ: Yes.

1           CHAIRMAN MADDOX:  And so I appreciate that.  
2   Given that, I think that when we vote, the  
3   Committee, I think, is going to unanimously vote to  
4   adopt the language in Section VII(2) rather than the  
5   alternative formulation.  And I don't know of any  
6   modifications necessary for that language as  
7   drafted, Vic.

8           The third area where there's alternative  
9   formulation language is in Section VIII(6), which  
10  has to do with reviewing and discussing with  
11  Management any planned audit or review activities or  
12  reports issued, and follow up on actions on  
13  significant matters noted.

14           David, you may have the best record of  
15  this.  Is this also language that would fall into  
16  the category of a motion to reconsider?  David?

17           MR. HOFFMAN:  Sorry.  I just took everybody  
18  off of mute there.  Sorry about that.

19           I don't think so.  I haven't seen this  
20  alternative formulation before.  And I noted it, and  
21  I had a question as to what the basis for the new  
22  language is.  I can't tell, just from reading the

1 two versions, what the reason for the change is. So  
2 maybe -- and I can't tell whether this is an IG or a  
3 management issue. So maybe someone there could  
4 enlighten us as to why there's an alternative  
5 formulation here.

6 CHAIRMAN MADDOX: Jeff or someone?

7 MR. SCHANZ: I don't recall how that got in  
8 there. I don't have a timeline and a side-by-side  
9 of each iteration of this other than the fact that  
10 each other way says about the same thing. But the  
11 alternative formulation gets into review and  
12 discussing with Management any planned audit review.  
13 We do that.

14 In fact, I asked, and I'll be asking during  
15 the open session, for any Board or Committee  
16 suggestions for audit work for the future. And I do  
17 that annually.

18 CHAIRMAN MADDOX: Right. But this language  
19 is -- this is a direction for the Committee to  
20 review and discuss with Management. So I don't see  
21 that this actually implicates the IG's office at  
22 all.



1 MR. SCHANZ: Okay.

2 MR. KORRELL: Vic?

3 CHAIRMAN MADDOX: Harry?

4 MR. KORRELL: If this is new, perhaps Vic  
5 could explain where it came from.

6 CHAIRMAN MADDOX: Yes.

7 MR. FORTUNO: That may have been -- I may  
8 have been the one who formulated that. I'm just not  
9 sure.

10 MR. SNYDER: Yes, Vic. I think this  
11 alternative came up because the OIG -- I believe,  
12 and I don't have all my notes here -- had a concern  
13 that really Management, there's no internal audit at  
14 Management, and there was a question about  
15 Management and its audit plan.

16 And so there was a modification of that  
17 wording, it was my recollection, to get rid of the  
18 term "internal audit," as an example. But in  
19 substance, they say the same thing.

20 MR. HOFFMAN: Yes. And that refreshes my  
21 memory. And I think our response to that -- now  
22 that Paul says that -- I think our response to that

1 was, well, they may not do any internal audit, in  
2 which case the term -- any internal audit or review  
3 activities may end up being zero.

4 But that's fine. We wanted just to  
5 accurately describe what we were going to do to be  
6 looking at Management's activities in the category  
7 of audit.

8 CHAIRMAN MADDOX: Right.

9 MR. HOFFMAN: And unless someone wants to  
10 point out why there's something wrong with number  
11 (6), my suggestion is that we don't spend a great  
12 deal of time on it, and just vote that the language  
13 of (6) is fine, and move forward.

14 CHAIRMAN MADDOX: I agree with that, David.  
15 I think Harry does as well.

16 Paul, do you have any thoughts?

17 MR. SNYDER: No. I agree.

18 CHAIRMAN MADDOX: Okay. And Jeff, I want  
19 to make sure that there's no overarching concern on  
20 your part. I think the Committee's fairly unanimous  
21 in its approach.

22 MR. SCHANZ: No.

1           CHAIRMAN MADDOX:   Okay.  This likely falls  
2  into the --

3           MR. SCHANZ:   My notes that I --

4           CHAIRMAN MADDOX:   Right.  I think the  
5  different context since June probably takes care of  
6  whatever concerns you had.

7           MR. SCHANZ:   I agree.

8           CHAIRMAN MADDOX:   Okay.  Well, those are  
9  the substantive changes.  I also want to --

10          MR. HOFFMAN:   Vic?

11          CHAIRMAN MADDOX:   Go ahead, David.

12          MR. HOFFMAN:   I'm sorry.  At this point, or  
13  whenever it's appropriate, there are two places,  
14  other places in the charter, where there are new  
15  changes that I'm seeing for the first time today.  
16  They're pretty -- neither of them is a huge point,  
17  but I want to raise the two points.  And I can do  
18  that either now or later.

19          CHAIRMAN MADDOX:   This is a good time.

20          MR. HOFFMAN:   Okay.  So the first one is on  
21  Roman numeral VII(7), the paragraph that now reads  
22  that we may request that the Board require any

1 person to attend. Previously, it just said that we  
2 may require any person.

3 CHAIRMAN MADDOX: Correct.

4 MR. HOFFMAN: As long as the Committee is  
5 aware that now that we can't get anyone to come to  
6 our Committee unless we ask the Board to require  
7 them, it seems bulky and unnecessary to me.

8 If this is a reflection of something that,  
9 being an advisory committee, we're simply not  
10 empowered to require anyone to come, then I guess it  
11 just reflects the reality of that legal status. If  
12 this somehow reflects a desire to limit our ability  
13 to require people to come, then it just seems to  
14 introduce an extra step that seems unnecessary.

15 I defer to you, Vic, on this. And whatever  
16 you think is the right answer, I'm with you. I just  
17 wanted to raise it because I didn't know if it had  
18 been given any attention.

19 CHAIRMAN MADDOX: Well, my impression,  
20 David, is that it's the former, not the latter, that  
21 it's a reflection of the D.C. Nonprofit Corporation  
22 Act. And I'm going to defer to Vic myself and make

1 sure that I'm right on that.

2 MR. FORTUNO: Yes. And I think it was  
3 intended to address the OIG's concern that to have  
4 the charter provide that the Committee may require  
5 any person, which would include the folks on the IG  
6 side of the house, might overstep.

7 So it was intended to simply provide that  
8 the Committee may recommend to the Board that it be  
9 required. Certainly the Committee can ask someone  
10 to appear; if they decline to appear --

11 CHAIRMAN MADDOX: Right.

12 MR. FORTUNO: -- then I think what this  
13 does is simply empowers the Committee to request  
14 that the Board instruct that person to appear.

15 CHAIRMAN MADDOX: To put it in the  
16 vernacular, we don't have subpoena power.

17 MR. HOFFMAN: Well, and to clarify, Vic --  
18 I mean Fortuno -- are you saying that this change is  
19 mandated by the D.C. not-for-profit law? Or this  
20 change was made to defer to the IG's concern that we  
21 might be requiring IG employees to attend?

22 MR. FORTUNO: I think, for me, it was

1 essentially a response to the IG's concern, although  
2 I think that it's probably a slightly better  
3 formulation under the D.C. nonprofit corporation law  
4 because it removes any ambiguity that may exist  
5 because of the use of the term "require," suggesting  
6 that the Committee has the authority of the Board to  
7 exercise.

8 MR. HOFFMAN: Well, so the only comment I'd  
9 make, and then we can move on, is that I'm mindful,  
10 and I'm sure all of us are, in a very practical way  
11 of wanting to be efficient about the way in which we  
12 go about collecting information and reviewing and  
13 assessing and doing what we're going to do.

14 I don't read this provision to require us,  
15 every time we're going to request that someone from  
16 the IG's office or somewhere else appear before us,  
17 that we have to go to the Board to make that  
18 request. I think that we can make whatever requests  
19 we want.

20 And if the IG's office or someone else  
21 says, "No; we actually think that the mere  
22 appearance of John Doe before your Committee would

1 be a problem," then we have the choice of whether to  
2 go to the Board and ask the Board to require it.

3 But unless anyone disagrees, I just think,  
4 as a practical matter, we shouldn't read this to  
5 mean that we can't even make the request because  
6 otherwise I think it gets pretty slow.

7 MR. FORTUNO: And my intention in drafting  
8 here was to do exactly as you --

9 MR. HOFFMAN: Should I go on to my next  
10 one?

11 MR. SCHANZ: No.

12 MR. HOFFMAN: In Roman numeral II on page  
13 1, I see that the word -- there's a few changes  
14 here. The only one I was going to look at was in  
15 the fourth line of Roman numeral II. The word  
16 "oversee" is struck and the words "remain fully and  
17 currently informed regarding" are added. So this is  
18 obviously similar to the change that the IG had made  
19 in Roman numeral VII(a), or VII(1), and that we  
20 rejected.

21 I think that this change also should be  
22 rejected, but for different reasons. I think, if

1 you read this sentence properly as originally  
2 written, all it's saying is that the Board -- not  
3 the Committee, but the Board -- has the  
4 responsibility to oversee the quality and integrity  
5 of the Corporation's accounting, auditing, and  
6 reporting practices, which I think it certainly  
7 does.

8           So in other words, it currently reads, "The  
9 Committee shall perform the functions delineated  
10 below as a mean of assessing and advising the Board  
11 in fulfilling its responsibility to ensure that the  
12 Corporation's assets are properly safeguarded, and  
13 to oversee the quality."

14           Now, if I'm misreading it and its  
15 responsibility is -- "its" refers to the Committee,  
16 then I understand what the IG's concern is. I don't  
17 think it's a valid concern, but I understand their  
18 concern.

19           But I don't think it's -- I think when it  
20 says, we're advising the Board in fulfilling its  
21 responsibility, I assume that "its" referred to the  
22 Board and the Board has a responsibility to ensure



1 that the Corporation's assets are safeguarded, and  
2 the Board has the responsibility to oversee the  
3 quality, integrity, and so on.

4 So I think that it's a bit of an  
5 overreaction to strike that, and I think it does  
6 nothing other than properly state what the Board  
7 does.

8 MR. KORRELL: So you would reject the  
9 change that strikes "oversee" and replaces it with  
10 "remain fully and currently informed regarding"?

11 MR. HOFFMAN: Right.

12 CHAIRMAN MADDOX: I mean, as I read this  
13 language, it doesn't have anything to do with the  
14 Inspector General's office. I want to get you guys'  
15 comments on this.

16 David, I want to make clear, though, that  
17 to the extent that I haven't already, and there's a  
18 pretty good chance that I haven't, in Section VIII,  
19 Duties and Responsibilities -- I'm sorry. Is it --  
20 in Section VII(1), we have in this draft stricken  
21 the word "oversee" in connection with the selection  
22 and retention of the external auditor. And you're

1 aware of that. Correct?

2 MR. HOFFMAN: Right. No, I know that we  
3 chose the alternative formulation which did not use  
4 the word "oversee."

5 CHAIRMAN MADDOX: Okay. So --

6 MR. HOFFMAN: And I was just referring to  
7 that because it looks like the IG's preference there  
8 was not only to strike "oversee," but to use the  
9 same language of "fully and currently informed."

10 CHAIRMAN MADDOX: Right.

11 MR. HOFFMAN: And I see the same language  
12 in Roman numeral II. So I assume it comes from the  
13 IG's office. And I was just reacting to -- in this  
14 one, I think "oversee" is appropriate to remain.

15 CHAIRMAN MADDOX: Right. The language in  
16 Section II comes from Vic Fortuno's mediation  
17 efforts and drafting, and I think -- he can speak  
18 for himself, but my understanding and my impression  
19 is that it was an effort to remove the word  
20 "oversee" because the IG has an objection to the  
21 concept of the Committee overseeing the IG.

22 And even though this paragraph doesn't

1 directly relate to the IG, that was at least the  
2 impetus for that change. Is that fair, Vic?

3 MR. FORTUNO: Well, actually, even slightly  
4 broader than that -- that is, that the IG has  
5 expressed a concern about the Committee exercising  
6 an executive function. And the suggestion to  
7 oversee being something that the Board does, the  
8 Committee exercising that function was somehow  
9 inconsistent with the D.C. Nonprofit Corporation Act  
10 and the addition of non-directors on the Committee.

11 So it was not --

12 MR. HOFFMAN: When you read the sentence,  
13 what it's saying is, "The purpose of the Committee  
14 shall be to advise the Board in fulfilling the  
15 Board's responsibility to oversee the quality and  
16 integrity of the Corporation's accounting, auditing,  
17 and reporting practices," which is certainly true.

18 I don't want to spend on this. And again,  
19 I will defer to the others on the Committee, and in  
20 particular you, Vic Maddox, if you think that it's  
21 not worth making the change. But I don't think --  
22 the flip side is, I don't think there's any reason

1 to take the word "oversee" out here because it's  
2 talking about the Board has a responsibility to  
3 oversee, which it does. And it's our role to advise  
4 the Board on that, which is exactly -- completely  
5 consistent with the D.C. Not-for-Profit Act, any of  
6 the IG's concerns, and so on.

7 So I'll just leave it at that, and you guys  
8 decide what you want to do.

9 CHAIRMAN MADDOX: I think, David, your  
10 parsing the language and your diagramming the  
11 sentences is accurate. And Vic, the way I read it  
12 and the way I hadn't read it until David pointed  
13 this out is that the overseer in that paragraph is  
14 actually the Board.

15 MR. FORTUNO: The Board.

16 CHAIRMAN MADDOX: And I think that that  
17 being the case, the language should include -- we  
18 ought not to delete that concept from the Board.

19 MR. FORTUNO: No. And that wasn't  
20 intended. So if it can be read that way, then I  
21 agree. I think it ought to be --

22 MR. KORRELL: How about we make it so that

1 it has to be read that way, and after the word  
2 "fulfilling," change "its" to "the Board's," and  
3 make "responsibility" plural? And then it's very  
4 clear.

5 CHAIRMAN MADDOX: I think that's a good  
6 suggestion, Harry.

7 David and Paul, I don't know if you heard  
8 that. What we've suggested here is that we will  
9 accept the changes in Section II, with the exception  
10 of, we're going to maintain "oversee." We're going  
11 to delete the phrase that follows "oversee." And  
12 two lines above that, we're going to delete the word  
13 "its" and add the words "the Board's," and then  
14 change "responsibility" to "responsibilities," so  
15 that the --

16 MR. SNYDER: Yes. That's a good change.  
17 Good catch, David.

18 CHAIRMAN MADDOX: Does the IG have any  
19 objection to that? I wouldn't think so, given the  
20 record we've just created.

21 MR. SCHANZ: No, we do not.

22 CHAIRMAN MADDOX: Okay. Well, thank you,

1 David.

2 Any other comments or suggestions?

3 (No response.)

4 CHAIRMAN MADDOX: If not --

5 MR. HOFFMAN: Nothing.

6 MR. SNYDER: Not from me.

7 CHAIRMAN MADDOX: Go ahead, Paul.

8 MR. SNYDER: No. I was going to say, not  
9 from me.

10 CHAIRMAN MADDOX: Oh, okay. If that's the  
11 case, then, I think that -- David, have you had a  
12 chance, then, to adequately review the proposed  
13 changes in the redlined version that we have in  
14 front of us?

15 MR. HOFFMAN: I think so.

16 CHAIRMAN MADDOX: And Paul, have you as  
17 well? I don't want to force a vote if you're not --

18 MR. SNYDER: I have.

19 CHAIRMAN MADDOX: Okay. In that case, I  
20 would entertain a motion that we adopt the revised  
21 charter for the Audit Committee in the format that  
22 appears before us in the redlined version we just

1 discussed, with the changes that we've noted on the  
2 record; and that we then pass a resolution to submit  
3 that to the full Board.

4 MR. KORRELL: Make sure I -- I would think  
5 that our vote at this point -- and I apologize if  
6 I'm wrong on this -- is that we simply recommend  
7 this to the Board --

8 CHAIRMAN MADDOX: Right.

9 MR. KORRELL: -- who will then resolve to  
10 adopt?

11 CHAIRMAN MADDOX: There should be a  
12 resolution in the board book at page 166.

13 MR. KORRELL: That is, we don't have to --  
14 we don't adopt any -- I don't think we have to adopt  
15 anything. We simply just have to recommend?

16 MR. LEVI: You forward it.

17 MR. KORRELL: We forward it to the Board  
18 with our recommendation.

19 CHAIRMAN MADDOX: Okay. The resolution  
20 says that, "Whereas the Audit Committee has  
21 recommended specific revisions to the charter," and  
22 it seems like we ought to be on record somehow as --

1 MR. KORRELL: Oh, yes. I agree.

2 MR. LEVI: That's it.

3 M O T I O N

4 MR. KORRELL: All right. So I move that we  
5 recommend these revisions to the charter to the full  
6 Board.

7 CHAIRMAN MADDOX: Is there a second?

8 MR. SNYDER: Second.

9 CHAIRMAN MADDOX: All in favor?

10 (A chorus of ayes.)

11 CHAIRMAN MADDOX: Opposed?

12 (No response.)

13 CHAIRMAN MADDOX: Hearing none, the motion  
14 is adopted.

15 So do I need to do anything, Vic, with  
16 respect to the resolution? Do we need to take any  
17 action on this resolution?

18 MR. FORTUNO: No. That's for the Board to  
19 take up at the appropriate time. But I will make  
20 the changes that have been discussed that were just  
21 acted on by the Committee tonight so that we have a  
22 clean draft tomorrow for the Board.



1           CHAIRMAN MADDOX: Thank you very much.

2           The next item on our agenda is the briefing  
3 by the Inspector General. Mr. Inspector General?

4           MR. SCHANZ: Well, I'm going to defer most  
5 of my time to Dutch Merryman. We've been engaged in  
6 quite a few different activities.

7           Last time I reported, the peer review we  
8 did of the SEC, that was time-consuming but also  
9 required by the IG Act. So while we don't get any  
10 beans or benefit from that, it's part of what we do  
11 with the community. It is a time constraint.

12           But I do want to talk a little bit about  
13 the financial statement, and the negotiations that  
14 we've had, and the upcoming entrance conference on  
15 October 4th, and our QCR process. I'm very proud of  
16 this. This is something that not every IG does.

17           But we want to make sure. And other I  
18 guess, federal I guess, use OMB Circular A-133 to do  
19 their Single Audit Acts. We have individual IPAs,  
20 and we want to assess the quality of their work.

21           So with that, I'll turn that over to Dutch.

22           MR. MERRYMAN: Thank you very much. I'll

1 make the presentation fairly specific and quick.

2           On the selection process, I apologize for  
3 not being at the meeting last time. I had some  
4 other things I had to take care of. But the  
5 selection process, as we said in the email, is very,  
6 very well documented. We do document everything.  
7 We conduct panels. We collect the information on a  
8 selection, on the recommendations, on all aspects,  
9 all major aspects of that process. It is fully  
10 documented.

11           And we follow our policies, which are based  
12 on some practices of the Federal Government in  
13 trying to come up with best value as opposed to just  
14 simply lowest cost. So it is fully documented. I  
15 just wanted to clear that up since I wasn't here to  
16 talk about it last time. If you want more details  
17 on that, I can provide it to you, exactly what it  
18 is. But I'll talk just briefly now about the corp  
19 audit.

20           The corporate audit -- we are having the  
21 in-brief on Thursday at 1:00, where we hope to  
22 finalize the timeline with everybody, get full

1 agreement. We did get the schedules from each of  
2 the participants in doing the audit, being the LSC  
3 management and the independent auditor.

4           After our review, we exchanged the  
5 schedules. Both said they thought they could meet  
6 it. However, I want to make sure there's no  
7 problems with terminology, language concerns. So we  
8 will make sure we have full agreement, full  
9 understanding, by the time that meeting ends on the  
10 4th.

11           We will monitor it closely. We'll keep the  
12 President of the Corporation informed of anything  
13 deleting with the schedule, and also the Committee,  
14 anything significant deleting with the schedule,  
15 either through -- including committee members as  
16 info on the emails wherever it needs explanation,  
17 then, as a separate email.

18           MR. SCHANZ: I would just like to add to  
19 that, Dutch, that that's consistent with our annual  
20 approach. That's nothing new. We do keep the  
21 President advised. We keep the Committee advised,  
22 at least quarterly when we meet, and I can do it

1 more often if you're so engaged. Thank you.

2 MR. MERRYMAN: The last item was something  
3 that I had hoped to cover last time. The Committee  
4 asked that I talk a little bit more about our onsite  
5 QCR about two meetings ago. It might be three now,  
6 seeing how I missed the one.

7 I'll provide some more detail on it, on  
8 what we're doing, why we're doing it; a little bit  
9 about the process; and then I can answer any  
10 questions and get more detailed information if  
11 anybody has a desire to go into great detail.

12 The current process that we have embarked  
13 on starting last year was to set a goal of trying to  
14 get to every IPA within a four-year cycle. Part of  
15 the reason for this was, of course, our  
16 responsibility to accept or reject audits and make  
17 sure they're being done in accordance with standard  
18 as well as the guidance provided by our shop; but  
19 also because of concerns about the number of frauds  
20 that appear to go on for a period of time that  
21 concern being -- are we getting good audits done to  
22 try to detect those frauds as early as we can?

1           And we did start on a program to do what we  
2   called "Targeted" at that time, where we had some  
3   very serious frauds. We wanted to get more  
4   information, so we actually hired a contractor to  
5   look at the financial side of those audits over a  
6   period of time to see if there's any telltale signs  
7   or anything in there that might have caused -- been  
8   overlooked, that we could get some benefit to get  
9   out to the other grantees and the IPA community.

10           Those directed QCRs did not discover  
11   anything specific that they reported on that would  
12   necessarily detect the fraud, a major oversight; but  
13   we did see value in looking at the financial side as  
14   well as the compliance side.

15           And while we had discussed internally to  
16   the OIG doing something like this, the Fiscal  
17   Oversight Task Force, we started talking more and  
18   more about it. And we decided that we would start a  
19   cycle of four years, which we thought was reasonable  
20   so we can get to every IPA. And we can look at both  
21   the financial work as well as what we call the  
22   compliance work, or the financial audit, the

1 compliance side, the internal controls -- you know,  
2 the whole ball of wax.

3           Now, what we did is we had contracted with  
4 a firm who was familiar with, had some experience in  
5 conducting, these types of reviews. What we have  
6 done is we have adopted the IG community guidelines  
7 for onsite reviews of what is A-133 audits; though  
8 we don't do an A-133 per se, it's almost the same  
9 because it's required to follow all government  
10 auditing standards, although there are some things  
11 in A-133 that doesn't apply to LSC. But we  
12 essentially used the CIGIE -- the IG community  
13 guidelines, as modified for LSC.

14           What the process is is that every IPA is  
15 subject to a review once every four years. We have  
16 risk factors that we look at in scheduling that to  
17 ensure that we try to get to the IPA firms in that  
18 four-year period, but also try to make sure we get  
19 to ones that we may have questions or concerns about  
20 earlier in the process.

21           So data since the last review obviously is  
22 important because we're trying to get to a four-year

1 cycle. We look at the experience of the IPA  
2 conducting the reviews. We look at any known  
3 problems with either the IPA or the grantees because  
4 if something was missed, was it missed through the -  
5 - did the audit miss it or was something going on?  
6 And we make a selection of about 35 firms look at.

7 Other considerations are, if the firm does  
8 multiple grantees, rather than visit them multiple  
9 times, we do all the grantees that one firm would  
10 do.

11 What happens is, the contractor makes  
12 arrangements to go onsite to review the work paper  
13 file, to look at the file, to determine whether or  
14 not the audit that was conducted met standards and  
15 was also in accordance with the guidance supplied by  
16 the OIG on compliance areas.

17 The contractor then has an exit with the  
18 IPA firm, goes over the findings and the  
19 recommendations that they come up with and an  
20 overall conclusion, which is, everything met  
21 standards, everything met standards except, or  
22 something did not meet standards specifically.

1           They provide us a draft of that report,  
2    which we look at, and their supporting work papers  
3    for the work. So we can look at the work papers and  
4    review their work papers also, see if we have any  
5    questions.

6           If we have any questions, we talk with our  
7    contracting firm as to what our issues are, and we  
8    reach agreement, and they publish a final report to  
9    us. Once we get the final report, depending on the  
10   content of the report and the seriousness of the  
11   findings -- we send a transmittal on all reports,  
12   but in some cases we ask that the IPA firm either  
13   supply us additional documentation of the work  
14   performed, or we ask them to go back and do the work  
15   if we feel that the work was not done. Usually we  
16   give 120 days, and we monitor this and suspense this  
17   to make sure we get the information back.

18           The first year's cycle, every IPA responded  
19    within the time frame, and every IPA worked to get  
20    the information back to us and satisfy us that they  
21    had done the work and done it correctly. Whether it  
22    was redone or done at the time is not documented.



1 So we had nobody on the LSC that we felt needed to  
2 be -- what our one item is, is to go through a  
3 debarment process in accordance with LSC Regulation  
4 1641.

5 We do, upon showing good cause, have  
6 authority to debar, suspend, or remove. And those  
7 terms have specific meanings that I won't go into  
8 because I don't remember all the meanings. But  
9 we've never held one of those proceedings before.  
10 But the regulation is there. It is in place for us  
11 to use if necessary.

12 If the audit is not done correctly, we can  
13 reject the audit until it is done correctly. We do  
14 look at this very carefully because we have to have  
15 a valid audit and a proper audit or federal funds  
16 cannot be charged to the audit, which then puts a  
17 burden on the grantee. So we work very hard to make  
18 sure we do get the information that we need.

19 (Whereupon, at 6:00 p.m, the Committee  
20 continued in evening session.)

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E V E N I N G S E S S I O N

(6:00 p.m.)

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MR. MERRYMAN: Now, we track all the results, and we do monitor it. We are using spreadsheets currently to look at the IPAs. We marry that up with our risk assessment. We look at the desk review of reports that we have done over the last several years, also using the guidelines from the IG community, to see if there's any problems or issues.

We are discussing a process of following up with some of the IPAs that had the more egregious issues in their work, either by visiting the IPAs ourselves, whether we were close by or made special visits, or by having the IPAs send in work papers to support -- from the area that they had problems with in a prior audit, to send it to us for the current audit so we can make an assessment again, to try to make an initial assessment.

If we continue to have problems with any IPA, we will visit them as many times is necessary in order to make sure we get the right thing or take the action necessary to have them not do the work.

1           The firms have always allowed us in; we've  
2 not had any problem getting access. They understand  
3 that. Our letter informs them, if they have to do  
4 work, it's at no charge to the grantee other than  
5 the time that the grantee might have to spend with  
6 them, obviously. And I think it's been fairly well  
7 -- a valuable program, at least for this first  
8 cycle.

9           I think the biggest benefit will come this  
10 year. One is, we did it last year. Everybody saw  
11 we did it. We got a summary out later than I would  
12 like; this year we're going to get the summary out  
13 in December.

14           We think we'll have a big impact. We have  
15 some anecdotal information only from the standpoint  
16 that we do operate a hotline for the IPAs, a phone  
17 line so they can call in with questions. We have  
18 some people who've been calling us up who never  
19 asked us a question before. And that makes you  
20 wonder what was going on before we started doing  
21 this.

22           So I think it's good that we're getting out

1 there on a four-year process. We're using  
2 established guidance from the IG community. The IGs  
3 who do look at grants, who do look at 133 audits, A-  
4 133 audits, Single Audit Act audits, follow this  
5 guidance also. We modify it as we have to for LSC.

6 So if there's further questions about what  
7 we do or how we do on the onsite QCRs, I'll be glad  
8 to answer them here, or send me an email and I'll  
9 send a response to you.

10 CHAIRMAN MADDUX: Harry?

11 MR. KORRELL: Thank you for that. Can you  
12 give us a sense of your satisfaction with the  
13 results of these? We don't need individual people  
14 or problems. But in general, are you pleased with  
15 what you're seeing, or are there problems that you  
16 think that need more attention than you anticipated?

17 MR. MERRYMAN: Well, I think we're seeing  
18 probably what I would call -- if you'd take a  
19 universe of population, we're probably not seeing  
20 anything different than -- I think it's pretty  
21 normal what we're seeing, for the most part.

22 Occasionally we have a more difficult one.

1 But again, I think it just reflects the population.  
2 I think we're getting adequate work in all cases,  
3 great work in many, many cases. But there's only  
4 been -- I have statistics; we put in the semiannual  
5 last year how many were actually rated as did not  
6 meet standards, some aspect did not meet standards.

7           And as far as the financial slide, there's  
8 very little on the financial side that did not meet  
9 standard, if anything. The financial thing is the  
10 bread and butter. Most of the problems that we find  
11 is not unexpected; it deals with the documentation  
12 and complying with -- testing for compliance.

13           Some of the issues with compliance, there's  
14 only one way to test because of the number of cases  
15 that people do and the things that you're trying to  
16 look for from restrictions. And that's to interview  
17 people. We have a requirement for a minimum number  
18 of interviews of the staff.

19           So they ask people directly, do you have  
20 any knowledge of certain things that are going on,  
21 with the hope that people who do will be honest with  
22 you and have to respond that we talk -- respond

1 honestly. We talk to attorneys. We ask to try to  
2 get the right questions asked.

3           Since there's thousands of tests and these  
4 are onesies and twosies that may be happening, to  
5 have it come up in the sample would be highly  
6 unusual for something like this. And if someone  
7 blatantly wanted to violate the restrictions, then I  
8 doubt it would show up in a particular system also;  
9 so trying to get people to talk.

10           So a lot of times it's not well-documented.  
11 Sometimes they don't ask the right questions on the  
12 reporting requirements. So we see documentation  
13 being the biggest issue of the compliance area but  
14 not unexpected. So as we keep having people go back  
15 and do it correctly, I think we'll have a better  
16 product in the long run. Thank you.

17           CHAIRMAN MADDOX: Thank you, Dutch.

18           Any questions from Paul or David?

19           MR. SNYDER: Dutch, it sounds like when  
20 you're out, or I should say through the contractor,  
21 obviously they're looking at the quality of the  
22 work. But I assume they're doing a look at the

1 people who are assigned to the engagements.

2 Have they met the training requirements  
3 under GASB, and are the appropriately trained and  
4 supervised? Sort of looking also at just quality of  
5 people.

6 MR. MERRYMAN: The term "quality," I would  
7 have to go back to look at the guidelines. But from  
8 the standpoint of training and experience, the  
9 Yellow Book has a requirement that if do audit work  
10 under the yield back, that certain types of  
11 experience is required --

12 MR. SNYDER: Right.

13 MR. MERRYMAN: -- a certain type of  
14 training.

15 MR. SNYDER: And that was my reference.  
16 Sorry, I should have been more explicit.

17 MR. MERRYMAN: So they do look for that.  
18 Also, a Yellow Book standard is proper supervision,  
19 so they try to look for -- they look for what  
20 qualifies proper supervision. And they spend a lot  
21 of time talking with the individuals.

22 What we tend to see in the reports is a

1 sense from our auditor, our contractor, whether or  
2 not it's a documentation problem mainly or whether  
3 or not it just wasn't done. A lot of times, when  
4 you talk to people, you can hear from what they're  
5 telling you and what they're saying that they  
6 actually did something, but it's just not written  
7 down fully enough. Other times they can't answer  
8 the questions.

9           So we do get an indication in the  
10 recommendations from them. And we take a look at  
11 it, and we have discussions with the contractor as  
12 well as look at the work papers. If we feel  
13 something is a documentation issue that's rather  
14 minor, we will ask them to make sure they correct it  
15 for next cycle.

16           If it's something we feel don't have  
17 confidence that it was done, we ask them to go back  
18 and do it, or supply us the documentation supporting  
19 that they did do it.

20           MR. SNYDER: And those, you mentioned, are  
21 more the compliance issues. You're saying very -- I  
22 think we've run into very few financial statement



1 auditing failures, as an example.

2 MR. MERRYMAN: That's correct. That's  
3 correct. There was not one did not meet standard on  
4 the financial side.

5 MR. SNYDER: All right. Thank you.

6 MR. MERRYMAN: Yes, sir.

7 CHAIRMAN MADDOX: Thank you. And thank  
8 you, Dutch, for your report.

9 Anything else from the Inspector General?

10 MR. SCHANZ: No, sir.

11 CHAIRMAN MADDOX: Well, thank you very  
12 much.

13 The next item on our agenda is public  
14 comment. Is there any comment from our public?

15 (No response.)

16 CHAIRMAN MADDOX: Seeing and hearing none,  
17 we'll move to the next item, which is to consider  
18 and act on any other business.

19 (No response.)

20 CHAIRMAN MADDOX: If there is none, well  
21 move to item number 7, which is a motion to adjourn.

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## M O T I O N

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MR. KORRELL: Move to adjourn.

MR. SNYDER: Victor, I'm sorry. Can I just make one suggestion that we do for a future meeting? Once the charter is adopted, one thing we've seen that's very helpful is to take the charter provisions and line up to the meeting schedule and mark off on each meeting schedule where we're going to cover the specific provisions of the charter so at the end off the year, we can look back and say we've accomplished all of the duties and all the actions we said we were going to do during that year.

CHAIRMAN MADDOX: Yes. I agree, Paul. I think that's a very appropriate and helpful suggestion. My plan was that as soon as we have a charter, to actually undertake that and to do what amounts to an informal survey of all the members, including Gloria, who couldn't join us today, and try to outline that.

There are also some other areas that we need to review on an annual basis that David

1 Richardson or others bring to our attention. So I  
2 think that's appropriate. Fortunately, we don't  
3 have another meeting until -- at least a quarterly  
4 meeting until, I think, January, late January. So  
5 we've got about four months to do that. But we'll  
6 take that suggestion, Paul, and look for something  
7 soon. So thanks.

8 MR. SNYDER: Yes. If you want to see some  
9 examples, I can find those and get them to people if  
10 they would like to see them.

11 CHAIRMAN MADDOX: That would be great.  
12 That would be very helpful.

13 MR. SNYDER: Okay.

14 MR. HOFFMAN: This is David. I just want  
15 to echo Paul's comments. I agree, and I think what  
16 you said, Vic, about your thoughts about how to  
17 execute that make a lot of sense.

18 I just wanted to say I agree, and I'm  
19 looking forward to our being in a post-charter world  
20 with some sort of a schedule of substantive things  
21 to do, and looking forward to working with everybody  
22 on that.

1           CHAIRMAN MADDOX:    Fantastic.

2           MR. SNYDER:    Yes.    Same here.

3           CHAIRMAN MADDOX:    Okay.    There was a motion  
4 to adjourn.    Is there a second?

5           MR. HOFFMAN:    Second.

6           CHAIRMAN MADDOX:    And all in favor?

7           (A chorus of ayes.)

8           CHAIRMAN MADDOX:    The motion is passed.  
9 Thank you all for your attendance; the meeting is  
10 adjourned.

11           (Whereupon, at 6:11 p.m., the Committee was  
12 adjourned.)

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