

LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

MEETING OF THE
OPERATIONS AND REGULATIONS COMMITTEE

Saturday, April 25, 2009

11:33 a.m.

Embassy Suites Hotel
319 Southwest Pine Street
Portland, Oregon

COMMITTEE MEMBERS PRESENT:

Thomas R. Meites, Chairman
Jonann C. Chiles (by telephone)
Lillian R. BeVier
David Hall
Bernice Phillips-Jackson (by telephone)
Frank B. Strickland, ex officio

OTHER BOARD MEMBERS PRESENT:

Herbert S. Garten
Sarah Singleton

Diversified Reporting Services, Inc.
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STAFF AND PUBLIC PRESENT:

Helaine M. Barnett, President
Karen M. Dozier, Executive Assistant to the President
Mattie Cohan, Senior Assistant General Counsel, Office
of Legal Affairs
David L. Richardson, Treasurer and Comptroller, Office
of Financial and Administrative Services
Karen J. Sarjeant, Vice President for Programs and
Compliance
Charles Jeffress, Chief Administrative Officer
Jeffrey E. Schanz, Inspector General
Joel Gallay, Special Counsel to the Inspector General,
Office of the Inspector General
Thomas Coogan, Assistant Inspector General for
Investigations, Office of the Inspector General
David Maddox, Assistant Inspector General for
Management and Evaluation, Office of the Inspector
General
John Constance, Director, Government Relations and
Public Affairs Office
Kathleen Connors, Executive Assistant, Government
Relations and Public Affairs Office
Laurie I. Mikva, Board of Directors Nominee

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

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P R O C E E D I N G S

(11:33 a.m.)

1
2
3 CHAIRMAN MEITES: All right. This is the regularly
4 scheduled agenda'd meeting of the operations and
5 regulations committee. The agenda can be found on 110.
6 We have a quorum.

7 Bernice, are you there?

8 (No response.)

9 CHAIRMAN MEITES: Bernice is not but Jonann is,
10 which gives us a quorum.

11 I will accept a motion to approve the agenda.

12 MS. PHILLIPS-JACKSON: Tom, this is Bernice. Sorry,
13 I'm here.

14 CHAIRMAN MEITES: Oh, good. Motion to approve the
15 agenda?

M O T I O N

16 MS. BeVIER: So moved.

17 CHAIRMAN MEITES: Is there a second?

18 MS. PHILLIPS-JACKSON: Second.

19 CHAIRMAN MEITES: It is approved.

20 Motion to approve the minutes of the meetings on
21

1 January 30th and January 31st.

2 M O T I O N

3 MS. BeVIER: So moved.

4 CHAIRMAN MEITES: Is there a second?

5 MS. PHILLIPS-JACKSON: Second.

6 CHAIRMAN MEITES: And it is approved.

7 The first substantive item is the staff report on
8 follow-up from January 30th presentation by grantee board
9 chairs on the role of grantee boards of directors in
10 grantee governance and oversight.

11 We have a report on the follow-up, which I found
12 very, very helpful. So I will assume that members of the
13 committee have read the report, and I'll ask Karen
14 Sarjeant to make a presentation.

15 MS. SARJEANT: Thank you, Chairman Meites. I'm
16 Karen Sarjeant, vice president for programs and
17 compliance.

18 During the past year, LSC management and the board
19 have spent significant time responding to recommendations
20 on governance and oversight improvements at LSC that were
21 contained in two reports from the Government

1 Accountability Office.

2 That experience and, in fact, our experience in
3 having to deal with some programs this year that were
4 troubled in different ways, there was an interest and
5 additional areas of inquiry on the part of the LSC board
6 regarding how grantee boards exercise their
7 responsibilities of governance and oversight.

8 A summary of the panel presentation from the January
9 board meeting of several fairly distinguished board
10 chairs and a former board chair of several grantees was
11 done. And that summary was made available to the board
12 by mail this past week. There are some copies in the
13 back of the room also.

14 I would ask that the chairman make the summary a
15 part of the transcript of this meeting.

16 CHAIRMAN MEITES: We will do that.

17 MS. SARJEANT: And what I would like to do is just
18 mentioned a couple of highlights, and then talk about
19 what LSC is doing going forward.

20 The panel presentation explored the ways in which
21 governance and oversight of LSC grantees is exercised.

1 And the panel members gave us suggestions and gave the
2 board suggestions on ways in which LSC and the LSC board
3 of directors can provide additional support and guidance
4 to grantee boards.

5 I think the key point that they all made was that
6 boards work differently. There is no one size that fits
7 all. But there was complete agreement that strong and
8 engaged board members and a strong, capable executive
9 director are the leadership that is needed to support
10 high quality legal services programs.

11 Very briefly, some of the highlights of the panel
12 discussion were: There was a discussion on term limits,
13 and there was no consensus in the five panelists that
14 participated. Some had term limits. Some did not.

15 They talked about the committees that their boards
16 used, and there was quite a range of committees. There
17 was specific inquiry by the committee on the existence of
18 audit committees, and not all of the boards had audit
19 committees, although they did talk about the different
20 ways in which they perform similar functions.

21 They talked about board member engagement and the

1 different methods that were used by the board to engage
2 their members in the work of the programs. All of the
3 presenters indicated that they were familiar with the LSC
4 rules and regulations, and that that was a part of their
5 board orientation. And they all felt that their fellow
6 board members were also familiar with that.

7 They indicated that they have frequent meetings,
8 often many more than what is required by the regulation.

9 They stay in constant contact through e-mail and
10 telephone. They engage in the work of the committees,
11 and they bring program staff and clients to their board
12 members to talk about the work of the program.

13 There were two very interesting and maybe unique
14 methods of engagement. One was one program required
15 board members to fill a liaison function and really be
16 very familiar with a local office so that when they sat
17 on the board, they could talk in some detail about what
18 was going on in that local office.

19 And the other very interesting and I'm sure unique
20 engagement issue had to do with a program in which the
21 attorney positions on the board were actually the subject

1 of contested elections in the bar association, that the
2 level of interest was so high in the bar association that
3 they actually held contested elections to sit on the
4 program board.

5 They then talked about client board members,
6 recruitment and retention. They were all looking for
7 ideas on how to do this. They talked about the financial
8 oversight, the specific financial oversight training that
9 their boards received. Many are adapting various aspects
10 of Sarbanes-Oxley to their practices. And each of the
11 boards either had or was creating a conflicts of interest
12 policy.

13 The panel then made three main recommendations to
14 LSC and the LSC board. And those recommendations are as
15 follows.

16 They recommended that LSC should consider whether
17 the regulations on board composition should be revised to
18 allow for a different percentage representation within
19 grantee boards. Right now, the regulation requires 60
20 percent attorneys and one-third clients.

21 They talked about the fact that there may be other

1 professionals, other representatives from the community
2 that would be helpful to have on the board. They also
3 recommended that LSC should be more proactive in
4 providing guidance to the boards. And they recommended
5 that LSC should facilitate communication between the
6 grantee board chairs.

7 In response to this presentation by the board
8 chairs, LSC will be implementing several different
9 activities in 2009 and into 2010 specifically to support
10 grantee boards.

11 First, we have created a staff working group that's
12 on board governance and oversight. And they are in the
13 process of developing a plan of activities to support
14 grantee boards.

15 Recognizing that this panel only represented 5 of
16 137 of our grantees, we are doing a very targeted
17 electronic survey which we expect to send out in mid-May.

18 And we will make that available to the board so you can
19 see the kinds of inquiries we are making.

20 And we expect to learn a lot from this because we're
21 asking not only for how they do things and what would be

1 helpful to receive from us, but we're asking them to
2 share with us their best practices so that we can share
3 those with other boards across the country. So they'll
4 be identifying their best practices.

5 We expect to be able to report back to the board in
6 July, at the July board meeting, that we have a website
7 section up that is sharing best practices. We will be in
8 a position to report back in the other activities that
9 we're planning.

10 Currently, the Office of Compliance and Enforcement
11 is working on a training curriculum related to
12 regulations and other requirements, and we're going to
13 combine that work with the board committee.

14 There are two other LSC initiatives that we briefly
15 mentioned yesterday, the fiscal operations advisory group
16 and the PAI advisory group. And we will be making sure
17 that information from all three of these groups is
18 brought together and then we will report to you in July
19 where we are on this.

20 CHAIRMAN MEITES: Thank you very much. First of
21 all, to follow up on the first recommendation of the

1 panel, we've been informed that in Senator Harkin's
2 proposed reauthorization bill, there is a provision that
3 in fact would lower the percentage of attorney members
4 from 60 percent to 50 percent. And this would be
5 consistent with the recommendation of the panel that the
6 grantees be given some room to appoint non-attorney, non-
7 client members to the board.

8 Second, just from my point of view, I am very
9 excited about this follow-up. I think that the first
10 line of defense and the first line of offense for our
11 grantees is the board, both to make sure that the
12 interests of LSC and Congress are protected, and also to
13 assure that the clients receive the best services they
14 can.

15 As we found in the area of our technology
16 initiative, our grantees are eager not to have to
17 reinvent the wheel, and they are very good at picking up
18 and modifying ideas developed by their fellow grantees.

19 And Karen, what you propose, that is, the website,
20 the survey, the working groups, seems to me a very
21 effective approach to identifying, first, what will be

1 helpful to our grantee boards, and second, setting up
2 methods for them to communicate both with us and with
3 each other about this.

4 Questions or comments from the members of the
5 communicate?

6 (No response.)

7 CHAIRMAN MEITES: Well, you'll report to us in July.
8 Thank you.

9 MS. SARJEANT: Will do.

10 CHAIRMAN MEITES: The next item on our agenda is
11 consider and act on rulemaking petition regarding
12 financial eligibility requirements in disaster areas.
13 And as many of you recall, there was a petition from an
14 individual who then was the executive director of our
15 Hawaii grantee that eligibility requirements in case of
16 disasters and disaster areas be modified.

17 Some months ago, I believe in October, we received a
18 staff recommendation opposing this proposal. We have
19 attempted to elicit comment from representatives of our
20 stakeholders. They reported to us on several occasions
21 that although they thought they had a consensus, they

1 weren't quite sure. But they were very confident that by
2 our April meeting, they would have a consensus so that
3 they could make a presentation to us on the position of
4 our stakeholders.

5 And I see a representative one is at the board, and
6 I await the position.

7 MR. SAUNDERS: Thank you very much, Mr. Chairman,
8 both for inviting us today and for the accommodation of
9 you and your committee.

10 As you mentioned in --

11 CHAIRMAN MEITES: Identify yourself for the record.

12 MR. SAUNDERS: Oh, I'm sorry. I'm Don Saunders with
13 the National Legal Aid and Defenders Association. And I
14 do bring to you some carefully considered recommendations
15 from the NLADA committee that is very representative of
16 grantees that reviews regulatory matters of the
17 Corporation.

18 We do appreciate Mattie and her colleagues' work in
19 terms of the draft notice. That was what we had asked
20 for, an opportunity to stimulate conversation.

21 Immediately after the commitment made in January, we

1 convened a conversation among our committee and
2 representatives from the field -- from Iowa, who had
3 dealt with the Mississippi floods; from the Red River
4 floods; from Texas programs that had dealt with Ike,
5 Rita, and Katrina; from Louisiana and programs that had
6 dealt with Katrina, obviously; and from California, who
7 had some earlier interactions with regard to earthquakes
8 in the L.A. Basin area.

9 We had a very rich conversation, in which those
10 programs did cite instances where, in the immediate
11 aftermath of a disaster, that it would have been helpful
12 in some instances to have the flexibility suggested in
13 the last petition. But on balance, and particularly when
14 viewed by other members from the community, two points I
15 would make to the committee.

16 One is those programs that had dealt on the front
17 lines with these disasters did have a feeling that this
18 is a bad precedent in terms of devoting limited resources
19 at the national level in a priority fashion when there
20 are other enormous needs going on.

21 And most particularly, they felt that they do have

1 the flexibility, even in some of the states that have
2 limited non-LSC funds, to address these issues without
3 using funds from the Corporation.

4 And there was a great deal of feeling on our broader
5 committee in support of the recommendations t you from
6 your management. The rationale given and the management
7 recommendations to your committee were very strongly
8 shared by the field.

9 So I just want to thank you for giving us the
10 opportunity to really discuss this issue in depth with
11 the community. And I am here today to tell you that it's
12 our recommendation that we concur completely with the
13 recommendation of management to the committee.

14 CHAIRMAN MEITES: Okay. Comments from our
15 committee? David?

16 MR. HALL: I just want to applaud the field for
17 taking this idea seriously and coming up to this
18 particular point. I think, reading this, I went in
19 wanting to be sensitive to what the original petitioner
20 was asking us to look at.

21 But if the field concurs with management, it's clear

1 to us, at least from my perspective, where we should come
2 out on this. And I'm just glad that the process has come
3 about in the way that it has.

4 CHAIRMAN MEITES: Lillian?

5 MS. BeVIER: I agree.

6 CHAIRMAN MEITES: Well, I will accept a motion that
7 we recommend to the board that the petition be denied.

8 M O T I O N

9 MS. BeVIER: I so move.

10 MR. HALL: I second.

11 CHAIRMAN MEITES: All in favor?

12 (A chorus of ayes.)

13 CHAIRMAN MEITES: Any opposed?

14 (No response.)

15 CHAIRMAN MEITES: Thank you very much.

16 MR. SAUNDERS: Thank you.

17 CHAIRMAN MEITES: The next item is consider and act
18 on inspector general's request to delete references in
19 the LSC employee handbook to management procedures for
20 cooperation with the OIG.

21 There is talk of an OIG report and a staff comment,

1 but it's only talk because I do not find in the book
2 either a staff report or OIG comment. Are there
3 documents that we should be looking at that we don't
4 have?

5 MR. JEFFRESS: The inspector general e-mailed
6 materials to the board in advance. There's nothing in
7 the book that I know of.

8 CHAIRMAN MEITES: Let's put it into this. When I
9 get the book, I expect it to be complete. If materials
10 that are e-mailed to me, given my system --

11 MS. SINGLETON: Your what?

12 (Laughter.)

13 CHAIRMAN MEITES: You're not on this committee,
14 either, Ms. Singleton -- do not reach the book. So there
15 is an OIG report and a staff committee. Is that correct?

16 MR. SCHANZ: Yes, sir.

17 CHAIRMAN MEITES: Can someone generate a copy for
18 me?

19 MS. BeVIER: I need one, too.

20 CHAIRMAN MEITES: Okay. Jeff, you go ahead.

21 MS. SINGLETON: The inspector general anticipated

1 your system.

2 CHAIRMAN MEITES: Okay. Jeff, why don't you start,
3 and we'll see if we can follow along.

4 MR. SCHANZ: Well, I did anticipate your system.
5 And in the future, everything, even at the last minute,
6 will be provided for your board book.

7 CHAIRMAN MEITES: Thank you very much.

8 MR. SCHANZ: And it's being passed around right now.
9 So that is truly the last minute.

10 As I referenced in the IG's report at the last board
11 meeting in Washington, there was an issue in the employee
12 handbook, specifically section 2.4, that I felt limited
13 the independence and objectivity of the inspector general
14 to be able to fully access corporate records and
15 information for me to fulfill my job.

16 During a series of discussions with management
17 representatives, specifically Charles Jeffress, who is
18 here at the table with me, we have reached agreement and
19 the memo you have is what I sent to you on --

20 CHAIRMAN MEITES: March 5th? Is that --

21 MR. SCHANZ: -- yes, March 5th. I believe you all

1 have it in front of you now.

2 I am offering at this meeting and seek board
3 approval to rescind that memo because management has done
4 precisely what I have asked them to do.

5 CHAIRMAN MEITES: Gone. Okay. So that this memo
6 has been superceded by events.

7 MR. SCHANZ: That is correct.

8 CHAIRMAN MEITES: Why don't you summarize what's
9 happened since March 5th?

10 MR. SCHANZ: Since March 5th, the offending language
11 that was in the employee handbook that talked about,
12 "Management has issued procedures to assure this
13 cooperation," which you'll see in the first page of the
14 memo, they have done that.

15 They have rescinded that and we've come up with a
16 much more viable solution that invokes the three Cs,
17 communication, coordination, and cooperation, as opposed
18 to going through some formalized, mechanized process to
19 be able to obtain the information we need to complete our
20 job.

21 CHAIRMAN MEITES: Now, does the new -- does what has

1 replaced the deleted sentence -- is it in the employee
2 handbook?

3 MR. JEFFRESS: Mr. Chairman, Charles Jeffress. No,
4 there is no longer a need for a reference in the employee
5 handbook.

6 CHAIRMAN MEITES: So if it's not in the employee
7 handbook, we're don't have to -- we're not obliged to --
8 you don't need us to consider it?

9 MR. JEFFRESS: That's correct.

10 CHAIRMAN MEITES: So we can consider this matter
11 resolved. Is that correct?

12 MR. SCHANZ: As a practical matter, yes. The
13 process is working as we anticipate.

14 CHAIRMAN MEITES: Good. Questions? Comments?

15 MR. HALL: I'm just a little confused. Was the
16 language deleted from -- I assume 2.4 was a part of the
17 manual, the employee handbook?

18 MR. JEFFRESS: If I may speak to that, Mr. Chairman,
19 section 2.4 remains a part of the handbook. The board,
20 in adopting the handbook, authorized the inspector
21 general and the president to make minor changes to the

1 handbook when necessary that didn't require board
2 approval.

3 What was done was to delete a phrase within a
4 sentence that included a reference to procedures that
5 were adopted in March 2006, back when relationships
6 between the IG and management were difficult. Let me
7 just say on behalf of management, we're delighted
8 relationships have improved and communication has
9 improved to the point where those -- that memo can be
10 withdrawn.

11 CHAIRMAN MEITES: Good. Thank you. Then we'll
12 consider the entire discussion unneeded on item 6 -- on
13 item 5.

14 Let's move to item 6. Staff report on OIG follow-up
15 to management referrals of program issues identified by
16 GAO.

17 MS. SARJEANT: Thank you, Mr. Chairman. I have --
18 I'm Karen Sarjeant, and I have about a 10-minute
19 presentation for your committee.

20 CHAIRMAN MEITES: We have plenty of time.

21 MS. SARJEANT: Okay. Well, then I won't try to talk

1 so quickly.

2 CHAIRMAN MEITES: Take all the time you need.

3 MS. SARJEANT: Okay. I want to thank you for this
4 opportunity to report again to the board on the
5 management actions taken in response to the GAO report on
6 grants management and oversight, this time including our
7 response to the recent OIG memorandum of March 31, 2009.

8 As you know, LSC management took the GAO report on
9 grants management and oversight very seriously and used
10 them as our own compliance review to determine those
11 areas of grants management and oversight that could be
12 improved by clarifying roles and responsibilities of the
13 oversight offices within LSC, expanding current oversight
14 procedures, and creating new ones where appropriate.

15 We continue to be guided by the reality created by
16 Congress that LSC management and the OIG share
17 responsibilities for oversight, and our effectiveness
18 depends on our ability to coordinate the three oversight
19 offices within LSC. Those are the Office of Compliance
20 and Enforcement, the Office of Program Performance, and
21 the Office of the Inspector General.

1 We continuously look to improve our oversight
2 functions to ensure the most effective use of all LSC
3 resources, ensure clarity of function, and strengthen and
4 improve our internal communications and systems.

5 Throughout 2008 and into 2009, management has taken
6 every opportunity to share with the board our work in
7 response to the GAO reports. At and between board
8 meetings, we have included -- and this is included
9 reports from President Barnett in her written and oral
10 board reports; other briefings from me; presentations
11 from LSC staff on our oversight functions, and the OPP
12 and OCE procedures; and reports through board committees,
13 especially the work of the ad hoc committee of this
14 board.

15 Additionally, the board has received copies of
16 correspondence sent to GAO and Congress, and has received
17 the written congressional testimony of President Barnett,
18 Board Chairman Strickland, and Vice Chairman BeVier in
19 2008 and 2009, all of which address the LSC response to
20 GAO in addition to some other matters.

21 We believe that this board has been vigilant in

1 keeping abreast of our activities, and we appreciate your
2 continued vigilance on this core mission of LSC, which is
3 ensuring the effective and efficient delivery of legal
4 services in compliance with our funding requirements.

5 In November 2007, when LSC received the draft report
6 from GAO on grants management and oversight, management
7 immediately made a referral to the LSC Office of the
8 Inspector General on eight of the nine programs
9 identified as needing follow-up after the GAO visits. As
10 you will recall, the ninth program was already being
11 reviewed by our Office of Compliance and Enforcement, so
12 that program was not referred to the IG.

13 In August of 2008, management received the first
14 four reports from these referrals from the OIG.
15 Additional reports on the other four programs were
16 received by management in September and December 2008 and
17 in February and March 2009.

18 On March 31, 2009, the inspector general shared with
19 management his memorandum entitled, "Response to LSC
20 management referral of grantee program issues identified
21 in the GAO draft report." It is my understanding that

1 this memorandum from the inspector general was made
2 available on April 8th, and prompted several board
3 members to ask for management's response to this
4 memorandum.

5 President Barnett provided the board with
6 management's response on April 21st. I ask the chair to
7 make the management memorandum of April 21, 2009 from
8 President Barnett to Jeffrey Schanz, inspector general, a
9 part of the record of this meeting.

10 CHAIRMAN MEITES: It will be. Thank you.

11 MS. SARJEANT: Thank you. Although we recently
12 received the memorandum from the IG, management has been
13 engaged in numerous activities all throughout 2008 and
14 into 2009 in response to the GAO report. And since there
15 was the question -- there were several questions raised,
16 and it appeared that the board wanted to have one full
17 report of what we've done, that is what I am about to
18 give you.

19 But let me say first that management is pleased that
20 after completing the eight reviews, the OIG found that
21 the reviewed grantees have, for the most part, corrected

1 the issues specifically identified by GAO in the report
2 of December 2007.

3 Management is also pleased that the issues
4 identified by the IG at each of the eight audited
5 grantees -- and I quote from his memo -- "did not
6 constitute what the OIG would consider a systemic problem
7 across the LSC grantee community."

8 LSC grants come with substantial compliance
9 responsibilities. We believe that grantees take their
10 responsibilities for the use of congressionally
11 appropriated funds seriously, and they make substantial
12 efforts to be and stay in compliance.

13 LSC management agrees with the IG's assessment that
14 the findings from his office reviews, especially those
15 identified by the OIG that were not identified by GAO,
16 indicate the continued need for active grants oversight.

17

18 As we have previously reported to the board, since
19 receiving the GAO report in November 2007, LSC has taken
20 the following actions to improve and continue our active
21 grants oversight.

1 The first thing I think that was done is that the
2 LSC board of directors created an ad hoc committee work
3 with LSC management and IG staff to implement the
4 recommendations of GAO.

5 The ad hoc committee and the LSC board approved the
6 definition of roles and responsibilities for oversight
7 within LSC offices. And that's primarily compliance and
8 enforcement and the IG clarifying the shared
9 responsibility between management and the IG for
10 compliance oversight of LSC grantees.

11 The ad hoc committee worked with LSC management and
12 the IG throughout 2008 to ensure the implementation of
13 improved communication and complete response to the GAO
14 recommendations.

15 At the January 2009 board meeting, the board
16 received a written report from the ad hoc committee
17 detailing its work and its assessment that the standing
18 committees of the board could provide the ongoing
19 oversight for the rest of our compliance work.

20 LSC management and the IG shared expectations
21 related to internal control oversight, and we shared with

1 the IG our concerns related to the compliance and audit
2 work of the independent public accountants.

3 And what we did was in several of our meetings, we
4 shared with the IG staff, the audit staff, items that OCE
5 identifies in their review of audited grantee financial
6 statements that we thought and think that IPAs should be
7 finding, but they were not. And thus, they were not
8 being referred to OCE by the IG through the audit
9 referral process.

10 We also -- the Office of Program Performance and the
11 Office of Compliance and Enforcement -- improved their
12 ongoing coordination between those offices and the IG.
13 That was done through the ad hoc committee meetings, and
14 I think right now there is more communication between
15 staff.

16 We see a lot more communication, and in fact, the
17 issue that was just before the board on being able to get
18 access to information, I think there -- to our way of
19 thinking, there was not a problem, but there certainly is
20 none now.

21 And we have worked out with the inspector general's

1 staff some reasonable requests for notification to
2 supervisors so that we have some idea, when they're doing
3 their routine work, what our staffs are being asked to do
4 so we can manage staff resources. But I think that as
5 Jeff reported, the communication problems do not exist at
6 this time.

7 Quarterly joint staff meetings --

8 MR. SCHANZ: Excuse me. I said I think we need to
9 be constantly working on that.

10 MS. SARJEANT: And both offices do, I believe.

11 There are quarterly joint staff meetings and
12 trainings that were implemented for the Office of Program
13 Performance and Compliance and Enforcement and the Office
14 of Information Management, and we use these to discuss
15 ongoing oversight issues and to do staff training.

16 OPP and OCE expanded the risk assessment criteria
17 that we use for onsite visit selection, and we documented
18 these criteria in our office procedures manual so they
19 are now written procedures.

20 There is coordination between OPP and OCE on visit
21 selection, and we shared our 2009 planned visits, the

1 list of planned visits, with the Office of the Inspector
2 General, and we expect that at some point they will share
3 their 2009 visit list with us so that we have -- we're
4 both making use of and using the combined LSC resources
5 to make those decisions on risk assessment.

6 OCE added expanded areas of limited financial
7 reviews to their work plans for onsite visits. And what
8 they did was they looked at the issues that came out of
9 the GAO report and specifically added those to their week
10 plans. And we continue to do that when the inspector
11 general sends to us -- they're called management
12 information memos --

13 MR. SCHANZ: Yes.

14 MS. SARJEANT: -- and issues as they are identified.
15 One that came up recently, and OCE has now added that to
16 their week plan. OPP, OCE, and OIM created an updated
17 office procedures manual, and we have a process in place
18 to keep those updated.

19 Both offices, OPP and OCE, restructured their visit
20 report templates. We defined time frames for report
21 distribution to grantees, and we cured the backlog of

1 visit reports. And I think both staff and management are
2 now clear on expectations, and so we have in fact been
3 getting out reports on a very timely basis. LSC
4 management distributed an advisory in March 2008 to all
5 grantees on the need for improved vigilance to the issues
6 highlighted by the GAO report.

7 Another activity that we undertook in 2008, in June,
8 was we held a meeting for all LSC executive directors,
9 with a significant focus on compliance issues. We
10 discussed the March 20, '08 advisory that was sent out by
11 President Barnett. We discussed the importance of
12 grantee staff training on compliance.

13 Then later in the year, in November, Danilo Cardona,
14 who is the director of the Office of Compliance and
15 Enforcement, and Jeff and I participated in a joint
16 presentation at NLADA annual meeting. There was a
17 pre-conference meeting on LSC compliance, and we all
18 participated in that and focused on internal controls and
19 tone at the top.

20 LSC management distributed a year-end compliance
21 advisory to LSC grantees identifying recurrent compliance

1 issues seen during our OCE compliance visit, thereby
2 allowing all programs to benefit from the information,
3 even if the program was not visited by OCE in 2008.

4 And that compliance advisory addressed issues such
5 as travel policies and documentation, segregation of
6 duties, case reporting issues, the importance of bank
7 reconciliations, and several other issues.

8 LSC management has created a fiscal operations
9 advisory group and a private attorney involvement
10 advisory group with grantee representatives to work with
11 LSC in identifying areas for guidance to programs. And
12 for our fiscal operations advisory group, we
13 intentionally recruited and asked to participate
14 financial managers from programs that were visited by GAO
15 but had no adverse findings of any kind. So we have them
16 participating on the advisory group.

17 We continue to implement effective oversight
18 functions, to be vigilant in addressing risks as they are
19 identified, and we continue to seek ways to improve our
20 grants oversight.

21 Now, attached to President Barnett's memorandum of

1 April 21st that I referred to earlier, that is, in
2 response to the IG's March 31st memo, is a memorandum
3 from the director of OCE to me detailing what activities
4 we have undertaken to address the issues referred back to
5 OCE by the inspector general's office for follow-up from
6 the eight OIG visits.

7 I'm not going to walk through each of those, but you
8 do have that as an attachment. And I do want to note
9 that as you will read, the majority of the issues that
10 were referred are now closed. Those recommendations are
11 closed, and OCE is diligently handling each referred
12 issue. I'm confident in saying that to you.

13 The ninth program visited by GAO, which was our
14 Nevada program, is not discussed in the memorandum from
15 Compliance and Enforcement because, as you will recall,
16 at the time of the GAO report, we were already engaged in
17 a compliance review of that program.

18 Follow-up on that grantee was not referred to the
19 IG. As we have previously reported to the board in May
20 of 2008, the program relinquished their LSC grant and was
21 placed on month-to-month funding with substantial special

1 grant conditions.

2 Since that time, the program made major changes in
3 its governing board leadership and membership, and in its
4 leadership of the program by getting a new executive
5 director. And they have worked closely with LSC staff to
6 address the compliance and programmatic concerns.

7 Due to the progress of this program, the LSC grant
8 funding term in 2009 has been increased to two-month
9 terms. So we're funding them on a two-month basis right
10 now. Our staff is planning a joint visit in May of 2009
11 to review on the ground and verify the program's progress
12 on the fiscal and compliance issues identified in the
13 2008 and 2009 special grant conditions, and assess the
14 progress in the program performance areas.

15 So as you can see, once we received the November
16 2007 GAO draft report, we have been working to implement
17 their recommendations. And we will continue to do so and
18 make improvements to our grants oversight. And now that
19 we have received the IG memo on the eight programs -- and
20 we received that at the very end of March in '09 and we
21 are working on those issues that are still outstanding.

1 The IG memo of March 31 also notes grantee issues
2 that were identified during the IG visits as significant
3 but not raised in the GAO report. These issues are
4 currently being addressed through OCE. There are three
5 programs involved. And because they're underway in terms
6 of correction, I am not going to talk about them in
7 detail.

8 There are other fiscal oversight issues that were
9 raised in the IG memo which LSC management is
10 considering. And we are using both the fiscal advisory
11 group to look at some of those, and we're talking with
12 our oversight staff on some of those.

13 In closing, I want to return to the shared
14 responsibility for oversight between LSC management and
15 the inspector general's office. The IG's memorandum of
16 March 31 did not mention the role of the IPAs as one
17 component of the LSC compliance function.

18 As required by Congress and as clarified by the ad
19 hoc committee and the LSC board, LSC management and the
20 IG share responsibility for compliance oversight of
21 grantees.

1 The IG's recent audit bulletin issued to all IPAs
2 for LSC grantees, reminding them of their
3 responsibilities to evaluate the internal control systems
4 of LSC grantees pursuant to section 509(a) of the 1996
5 Appropriations Act and all subsequent appropriations acts
6 reinforces the oversight compliance responsibilities of
7 the IG in relation to oversight of the IPAs and their
8 required compliance reviews during the annual audit of
9 each grantee.

10 Management has shared with the board on prior
11 occasions, most recently at the January 2009 meeting of
12 this committee, that we continue to have concerns about
13 the sufficiency of the compliance work of the IPAs, while
14 at the same time acknowledging the important role in the
15 overall LSC compliance oversight function given to the
16 IPAs and the OIG by Congress.

17 We urged that in working to improve the IPAs'
18 functioning, that this be done without significantly
19 increasing the cost to programs. We are now hearing from
20 programs that they are concerned about what they think
21 will be an increased cost, and they are communicating, as

1 we understand it, with the IG on this issue in response
2 to the audit bulletin.

3 We expect that the IG's new instruction in the audit
4 bulletin -- with that instruction, that the IPAs will
5 uncover, if they exist, the types of issues found by the
6 IG, thereby improving LSC's oversight on these compliance
7 issues.

8 And keeping with the thinking and the reality that
9 we share an oversight function, we have asked the IG to
10 share with us his office's assessment of whether the
11 implementation of the requirements of the audit bulletin
12 do result in measurable improvements in the IPA's
13 compliance role. And we now add to that request an
14 assessment of whether this is a significantly increased
15 cost to programs.

16 We believe that had the IPAs been fully performing
17 what is currently required of them, several of the issues
18 raised by GAO and by the IG in its reviews should have
19 been identified by the IPAs due to the dollar amounts in
20 question and the compliance requirements involved.

21 I want to thank you for this opportunity to share

1 the work that we have done. I appreciate your indulgence
2 in letting me get this entire report on the record, and
3 what we are doing to respond to GAO and the OIG
4 referrals. We are pleased with our efforts to date, and
5 we continue to push ourselves to do even better.

6 I also want to say that it is certainly our belief
7 and observation that our programs work hard at being in
8 compliance. As I indicated, there are a lot of
9 compliance requirements. We expect them to meet
10 everything. And I think they work hard at trying to do
11 that.

12 We look forward to our continued cooperation with
13 the IG, and we appreciate the importance of our joint
14 attention to these compliance matters. Thank you.

15 CHAIRMAN MEITES: Thank you very much, Ms. Sarjeant.

16 I have a small observation and an issue.

17 The observation is in the president's report, which
18 we'll hear later today, on page 3 there is a summary of
19 the LSC oversight office's activities. This committee
20 actually is the committee that has direct oversight over
21 compliance issues.

1 And what I would like to see in the future is for
2 each of our committee meetings, some kind of a chart be
3 prepared for the current year setting out all the visits
4 that have taken place, divided into categories that make
5 sense -- perhaps the categories that you've used on page
6 3, but whatever groupings you have -- of both OCE and
7 OPP.

8 And to the extent the inspector general could
9 provide that information as well as to his office's in a
10 combined report, I think that would allow us to keep on
11 top of what's actually going on on the ground. If that's
12 onerous, let me know. But why don't we try it for the
13 next meeting and see what -- you all work out a format
14 and see what it looks like, and we'll see if it's
15 helpful.

16 MS. SARJEANT: Okay.

17 CHAIRMAN MEITES: Lillian?

18 MS. BeVIER: One more sort of thing that has come up
19 in the past, and that has to do with -- and perhaps I've
20 missed this and you've addressed it specifically -- but
21 the effort to identify systemic problems, things that

1 recur in program visits. That was something that we
2 found missing, and that I know that you were going to try
3 to do that.

4 And I just would encourage you to continue the
5 effort to try to get that sort of thing going so that of
6 course you can then do best practices or something,
7 modify how the grantees are trained or informed about
8 what they're supposed to do.

9 CHAIRMAN MEITES: That's what I understood this
10 year-end compliance advisory to be trying to get to.

11 MS. BeVIER: Yes.

12 CHAIRMAN MEITES: And it would be helpful, I think,
13 if we received a copy of that as well so we got an idea
14 of both what kind of systemic problems you're reporting,
15 and also the method you use to report it.

16 But the big picture issue I want to raise, again, as
17 we raise every time this comes up is the IPAs because
18 they're really the first line of protection and oversight
19 of the grantees.

20 And, you know, we of course are aware that there is
21 a direct dollar cost to our grantees in the IPAs' work.

1 And we've also heard that to some extent, Congress has
2 asked, or appears to have asked, CPAs to do kinds of
3 analyses that are not necessarily their customary kinds
4 of work, though in general they are, but there may be
5 some questions that Congress has asked the IPAs to look
6 into which they're not used to looking into.

7 But I would really like to get a sense, and maybe
8 this isn't the time, but if you all think the IPAs can do
9 the job that we want them to do. Or should we -- is
10 there another approach that should be taken? Because as
11 I understand it, you're asking just ordinary CPA firms to
12 not do the usual kind of audit function, but to do some
13 forensic accounting. And that, as I know from some work
14 we've done, is a very specialized and not that generally
15 practiced area of the accounting profession.

16 And maybe the inspector general can respond to that.

17 MR. SCHANZ: This is Jeffrey Schanz. I agree with
18 that wholeheartedly. The CPAs that are hired, the
19 IPAs -- and a lot of them are very small local firms
20 where there's small local grants. And they seem to
21 have -- I won't say -- I'm not sure whether it's an arm's

1 length relationship, but by standards, it has to be. But
2 in a small town, they all know each other.

3 What you're asking and what -- section 509(a)(2),
4 subpart (2), of the regulatory structure for the LSC
5 Corporation requires IPAs to opine on the financial
6 conditions, the internal controls over financial
7 conditions.

8 Most CPA firms, large and small, and including our
9 corporate audit in Washington, D.C., are focused and
10 geared and trained to providing an opinion on the
11 financial statements. Do they materially represent money
12 in, money out, and where's the difference? That's what
13 CPA firms are geared to do.

14 What we're asking them to do, and that's when we
15 sent out the audit bulletin, 99-01, was to start
16 seeing -- and we've delayed the implementation of that
17 until June 30th because it's going to be a sea change for
18 CPA firms.

19 If we're willing to pay for that, we the
20 Corporation, then it's going to cost for that level of
21 assurance. There is another way for the level of

1 assurance, and you've heard me talk about it and
2 particularly Dutch Merryman, the AIGA for the inspector
3 general's office, is the tone at the top.

4 Management -- and that's where I would clarify your
5 statement a little bit, Mr. Chairman. It's not the IPAs
6 who are the first line. The IPAs are a method of
7 ensuring that there are internal controls in place. And
8 this is what GAO report No. 1 talked about, is the
9 governance of boards of directors.

10 That is where the first line of vigilance and making
11 sure that there's separation of duties, and making sure
12 the bank reconciliations make sense, and make sure
13 there's no missing checks when you do the
14 reconciliations -- that is a corporate function and a
15 management function.

16 The IPAs are one pillar supporting that. OCE and
17 OPP visits are another pillar supporting that. OIG, we
18 have the heavy hand. We are probably the final pillar
19 supporting that.

20 But in looking at just one piece of the puzzle, I
21 don't think we'll get the overall governance that we need

1 of almost \$400 million in federal funds.

2 CHAIRMAN MEITES: Well, there are two parts to it
3 that I want to follow up. The first is the tone at the
4 top, you're absolutely right, and that fits in with the
5 first part of Karen's presentation on the follow-up of
6 our presentation by board chairs.

7 I think, if I understood where we're going, we are
8 going to have an effective mechanism for communicating
9 and sharing best practices, which of course would include
10 the areas that you've just been talking about.

11 The second part is nonetheless, Congress has asked
12 the IPAs to do something.

13 MR. SCHANZ: Correct.

14 CHAIRMAN MEITES: And what would be helpful for me,
15 at least, is if at our next meeting -- it'll be too soon
16 for you, of course, to have any report about whether it's
17 working -- to see if you can get your hands around two
18 questions.

19 One is: Can the IPAs actually do what you've asked
20 them to do in your new bulletin? You know, I'm not
21 saying everyone has to be able to do it, but as you

1 understand the talent that's out there.

2 And two, and this may be too early for you to get an
3 idea of how much more a typical grantee would expect to
4 have to pay to its IPA in order to get the IPA who is
5 able to do it to do it.

6 So first, is the talent there? And two, how much is
7 it going to cost for the talent to do the -- I'm not
8 going to say additional work because this is work that
9 should have been done all along, but the work that we've
10 now targeted. And if you could give that to us at our
11 next meeting --

12 MR. SCHANZ: I would be happy to, Mr. Chairman. But
13 I do want to make a couple clarifying points, if I may.

14 CHAIRMAN MEITES: Sure.

15 MR. SCHANZ: We have done some background research
16 in dealing with GAO and the AICPA to find out what the
17 level of effort would be to address section (a)(2).
18 We've also tried to cost that out, and the fundamental
19 answer we received -- and it's non-sophisticated and it's
20 anecdotal -- would be another 50 percent added to the
21 cost of the audit.

1 CHAIRMAN MEITES: Well, that's fine. Whatever it
2 is, it is. It would help us to know because if it is
3 really a large amount, then it's maybe something we
4 should ask Congress to help our grantees with. That's a
5 perfectly reasonable response. But we need to have the
6 data before we can even think about formulating it.

7 MR. SCHANZ: Correct.

8 CHAIRMAN MEITES: So to the extent you could pull
9 that together, I think it would be very helpful.

10 MR. SCHANZ: Okay.

11 CHAIRMAN MEITES: Comments? Sarah?

12 MS. SINGLETON: I have a question I'm wondering if I
13 could get the opinions of both of you on.

14 One of the issues that was spotted was that a
15 grantee didn't have a manual of accounting for it seems
16 like it was two years or something like that. Who should
17 have discovered that, and when, and how? Obviously,
18 management should know they didn't have -- I mean,
19 management of the grantee should know they didn't have
20 it. But after that, who should have said, hey, you don't
21 have this; you have to?

1 MS. SARJEANT: Without naming the program, I believe
2 the last time we did an onsite visit was in 2005 and they
3 had an accounting manual at that time. The management of
4 the program changed.

5 We have not done the investigation yet. We're going
6 to sit down with the IG staff to talk about, you know,
7 what they found because we tend to believe that there was
8 something that was guiding what they were doing. And
9 there certainly was an accounting manual in 2005. Why
10 the program responded the way they did or what the IG
11 found, that's what we want to talk about.

12 But certainly we would think that in doing the
13 annual audit, the IPAs should have at some point known if
14 there was no accounting manual in existence because I
15 would think that part of that audit is testing
16 procedures.

17 MS. SINGLETON: Jeff, do you have an opinion?

18 MR. SCHANZ: I have lots of opinions.

19 MS. SINGLETON: Well, I'm just -- not on that
20 particular program, but just as a hypothetical, a program
21 doesn't have an accounting manual for two years.

1 MR. SCHANZ: Well, that would be surfaced either of
2 two ways. And one would be an IPA report. The second --

3 MS. SINGLETON: But wouldn't that seem like they
4 should be asking --

5 MR. SCHANZ: Yes.

6 MS. SINGLETON: -- well, where is your accounting
7 manual?

8 MR. SCHANZ: Yes.

9 MS. SINGLETON: And then it ought to be on a
10 checklist. Have one?

11 MR. SCHANZ: Right.

12 MS. SINGLETON: No. That ought to show up. It
13 seems pretty easy.

14 MR. SCHANZ: Well, it's even more fundamental than
15 that. There's certain criteria that you need to audit
16 against. And if you don't have that criteria, then in
17 the IG world that's a questioned cost because you have
18 nothing to balance it against. You don't know whether
19 those practices and procedures are in compliance with
20 their accounting manual, in compliance with LSC regs.
21 You just don't know.

1 That should have probably surfaced by an IPA who
2 would say that and ask that simple question walking in
3 the door. What do you use for criteria? You have the
4 accounting or the compliance supplement, so you would
5 have that. And I believe in the compliance supplement it
6 lists accounting practices and the need for an accounting
7 manual.

8 MS. SINGLETON: Yes. I mean, I remember it was one
9 of the things that got updated. Right?

10 MS. SARJEANT: The compliance supplement was not
11 updated.

12 MS. SINGLETON: No. But something about the
13 accounting manual or requirements about accounting
14 manuals got updated, didn't it? Maybe I'm wrong. Okay.

15 MS. SARJEANT: No. No, we looked at the accounting
16 manual that we -- that LSC has.

17 MS. SINGLETON: Never mind. I withdraw that
18 comment.

19 MR. SCHANZ: Well, moving forward, what I will tell
20 you is that -- and I mentioned it a little bit earlier --
21 I have audit teams now that go out. And we're combining

1 a review of the IPA function with a few of the grantee at
2 the same visit. So we're maximizing our travel dollars
3 and maximizing our experience.

4 So if one of the persons reviewing the IPA's working
5 papers and their conclusions finds a problem, we can
6 trace it right back into the grantee to see if that
7 problem still exists. So that's one of the synergies I'm
8 trying to develop within the audit staff.

9 CHAIRMAN MEITES: I want to follow up one more point
10 on the tone at the top. One of the reasons we invited
11 the board chairs was to see if we thought changes might
12 be needed in our regulations.

13 And I've been thinking about that since the meeting.

14 And something we didn't follow up on is this: whether
15 we should require our grantee boards to have an audit
16 committee.

17 They all have something, usually a budget or
18 a finance committee. But we've seen in our operations
19 that a separate audit committee really does something
20 different than a budget committee and a finance
21 committee.

1 And I suppose -- I don't see why we couldn't amend
2 our regulations to provide -- to require an audit
3 committee. We don't really do anything like that now,
4 but we could. And is that something that you think we
5 all should talk about? Is that worth pursuing?

6 MS. BeVIER: I think it's worth talking about. I
7 don't know whether it's worth doing.

8 CHAIRMAN MEITES: I don't know if it's a good idea
9 or not. David?

10 MR. HALL: Yes.

11 CHAIRMAN MEITES: SO why don't we put that as
12 something for you all to report your views on at the next
13 meeting. And if the field and the stakeholders have
14 anything -- it may be premature for anyone other than
15 management and the OIG to start talking now.

16 But I'd like just to get some sense -- because we've
17 had a good experience with the audit committee. It's the
18 first audit committee I've ever been on, and so it led me
19 to think maybe our grantees should think about it, or
20 indeed we should require that they have it.

21 Okay. Further discussion on this point? I want to

1 thank Karen and the inspector general for this helpful
2 presentation.

3 We have one more item on our agenda, which is the
4 ubiquitous Freedom of Information Act presentation.
5 However, it is now 12:30 and it may have to wait until
6 Topeka unless there's a pressing need on it now. I do
7 note that substantial progress has been made on the
8 backlog. But by Topeka, the progress will be even
9 greater so the report will be better.

10 MS. BeVIER: If we can get there.

11 MS. SINGLETON: What a place to talk about all due
12 deliberation or all due deliberate speed.

13 CHAIRMAN MEITES: So let us defer No. 7 till the
14 next meeting.

15 Public comment?

16 (No response.)

17 CHAIRMAN MEITES: Consider and act on other
18 business?

19 (No response.)

20 CHAIRMAN MEITES: If there is none on either of
21 those, I'll accept a motion to adjourn.

1 CHAIRMAN MEITES: So moved.

2 MR. HALL: Second.

3 CHAIRMAN MEITES: And we are adjourned. Thank you
4 very much.

5 (Whereupon, at 12:31 p.m., the meeting of the
6 operations and regulations committee was adjourned.)

7 * * * * *