

LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS MEETING
OFFICE OF THE INSPECTOR GENERAL
OVERSIGHT COMMITTEE MEETING

May 17, 1992

4:12 p.m.

The Marriott Suites Alexandria
801 North St. Asaph Street
THE CONFERENCE CENTER
ALEXANDRIA, VIRGINIA 22314

Board Members Present:

William Kirk, Jr., Chairman
Howard H. Dana, Jr.
Jo Betts Love
Penny Pullen
George W. Wittgraf
Jeanine E. Wolbeck

Staff Present:

John P. O'Hara, President
Emilia DiSanto, Acting Vice President
Patricia Batie, Secretary
Edouard Quatrevaux, Inspector General

RECEIVED

MAY 20 1992

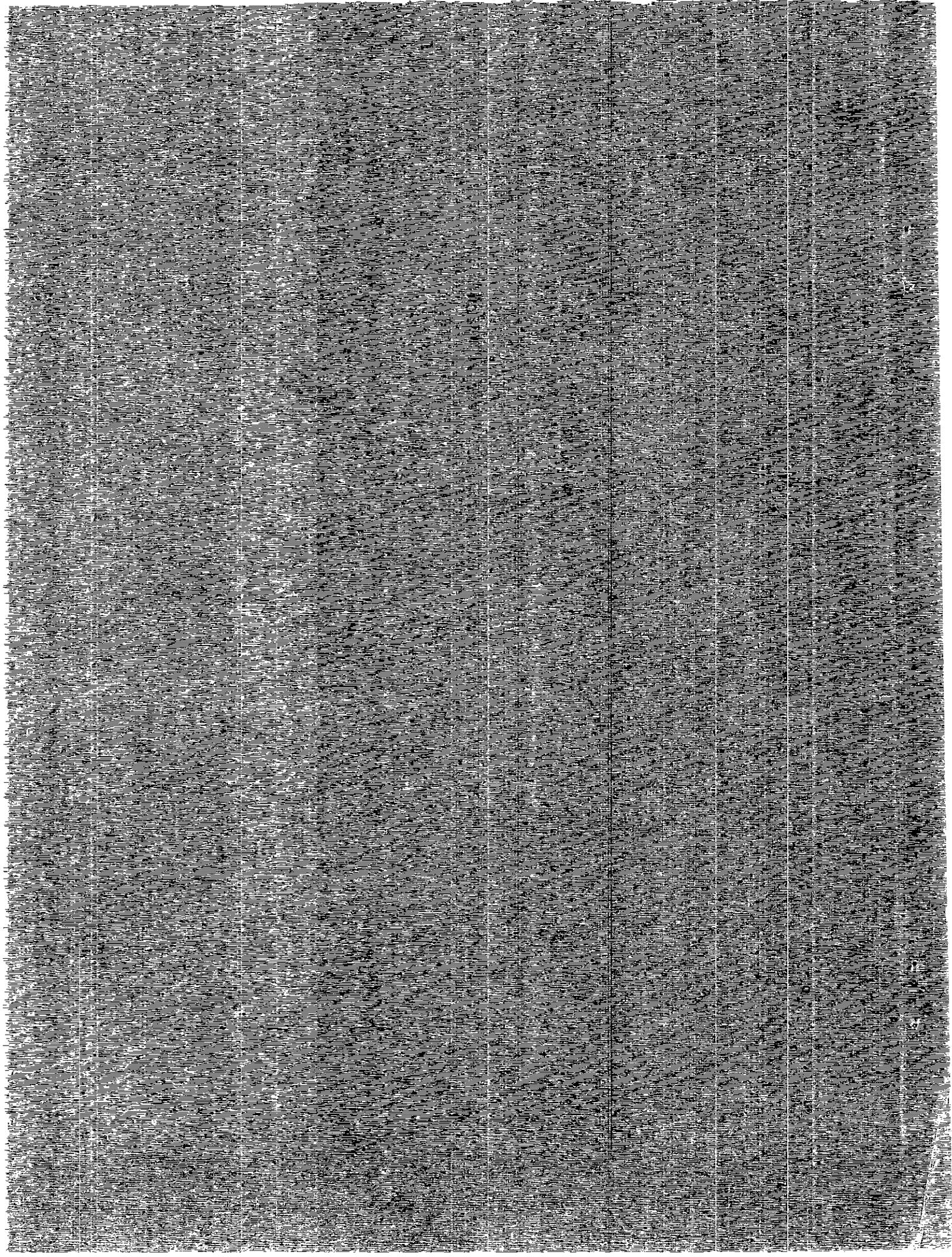
Executive Office

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929



C O N T E N T S

	PAGE
Approval of Agenda	3
Approval of February 16, 1992 Meeting	3
Consideration of Inspector General's Semiannual Report Covering the Period of October 1, 1991 to March 30, 1992	4
Consideration of Draft Management Response to the Inspector General's Semiannual Report Covering the Period of October 1, 1991 to March 30, 1992	7
Consideration of Inspector General's Mid-Year Report	21
Consideration of the Office of the Inspector General's Audit Management Plan	31
Consideration of the Office of the Inspector General's Investigative Reporting Process	54
Ratification of Action Taken at the Committee's February 16, 1992, Meeting	62
Motions:	

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

P R O C E E D I N G S

1
2 CHAIRMAN KIRK: I'd like to call the Inspector
3 General's Oversight Committee to order. Do we have a quorum?
4 Mr. Wittgraf is here. Yes, we do have a quorum. I need to
5 tell you all that one time I set this clock alarm to go off,
6 and it was during -- when George was going to be taking back
7 over, George and I got real heated at one point in time, and
8 I decided that would not be appropriate to have it go off, so
9 I shut it off. So I'm waiting for somebody to set it to go
10 off during one of my committee meetings now.

11 I'd like to entertain a motion to approve the
12 agenda.

M O T I O N

13 MS. WOLBECK: So moved.

14 CHAIRMAN KIRK: Ms. Wolbeck has moved. George
15 Wittgraf has seconded the agenda. All in favor say aye.

16 (Chorus of ayes.)

17 CHAIRMAN KIRK: Opposed?

18 (No response.)

19 CHAIRMAN KIRK: The motion carries. I'd like to
20 entertain a motion for the approval of the machines of
21 February 16, 1992.
22

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

M O T I O N

MS. WOLBECK: So moved.

CHAIRMAN KIRK: It's been moved by Ms. Wolbeck.

MR. WITTGRAF: Second.

CHAIRMAN KIRK: Seconded by Chairman Wittgraf. Any discussion?

(No response.)

CHAIRMAN KIRK: All in favor say aye.

(Chorus of ayes.)

CHAIRMAN KIRK: It carries. The third item is the consideration of the Inspector General's semi-annual report October 1 to March 30th. I have told the Inspector General that it would be my sincere hope that this would go could be concluded well short of the three hours anticipated.

So I don't want to cut anybody off. I don't want to take away any understanding of what's occurring, but to the extent that we can move, you will find that I will push you. So, with that, Mr. Quatrevaux, go ahead.

CONSIDERATION OF INSPECTOR GENERAL'S SEMI-ANNUAL REPORT

MR. QUATREVAUX: Good afternoon, Mr. Chairman. In that regard, let me just simply say that the semi-annual report, I believe, is fairly simple and speaks for itself.

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 So that my only function here today would be to make myself
2 available to any questions that you may have on that
3 document.

4 CHAIRMAN KIRK: It's a bound monograph with a hard
5 cover?

6 MR. QUATREVAUX: I might point out that that
7 document, Mr. Chairman, does not become a public document
8 until 60 days, or must not -- let's put it this way: must
9 become a public document 60 days after the Board forwards it
10 to the Congress with its own report. However, it's at the
11 option of the Board at any point after transmission, I
12 believe, to make it public.

13 CHAIRMAN KIRK: And, in fact, you've received a
14 request from Congress for a copy of it, and you've told them
15 you cannot do it until such time as the main report
16 accompanies it?

17 MR. QUATREVAUX: That's correct. Given that you
18 mention it, my office did receive that request as did the
19 Corporation secretary, and we both told the congressional
20 contact that the report was in the Board's hands and that the
21 Board had until the end of this month to forward it to the
22 Congress with its comments.

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 As a practical matter, however, I would suggest
2 that if you have no objection grant me the permission to
3 forward that report onto the requester. It was the House
4 Government Operations Committee, Mr. Conyer's staff.

5 CHAIRMAN KIRK: The most significant part of the
6 report seemed to me the comments on H.R. 2039, and the House
7 has now passed a version of that, but the new version would
8 not be applicable to this report, because this is as of March
9 31st; is that correct?

10 MR. QUATREVAUX: That's correct.

11 CHAIRMAN KIRK: Are there any questions of the
12 Inspector General regarding his semi-annual report?

13 (No response.)

14 CHAIRMAN KIRK: I have to ask you whether or not
15 this committee actually approves your report or whether it's
16 an independent report, and we merely accept it?

17 MR. QUATREVAUX: It's an independent report,
18 Mr. Chairman.

19 CHAIRMAN KIRK: Then I will assume that it's
20 accepted by the Committee. Move on, then, to Item No. 4,
21 which is the draft management response to the Inspector
22 General. Again, this is a confidential document. These

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 items are identical to what you've received previously except
2 for two or three changes, and I'll ask Ms. DiSanto to come
3 forward and explain the changes and where they are.

4 PRESENTATION OF EMILIA DISANTO

5 MS. DISANTO: Good afternoon. My name is Emilia
6 DiSanto. I'm the acting vice president of the Legal Services
7 Corporation. You all provided, I think perhaps on Monday
8 afternoon by fax an initial copy of the draft management
9 report for the Legal Services Corporation's Board of
10 Directors.

11 There have been a few changes made, and those few
12 changes are more or less limited to page 3 and 4 of the
13 current document that you have before you. It's under
14 section C, Review of Legislation and Regulations.

15 The primary change that was made was the insertion
16 of the Board's resolution with regard to the Inspector
17 General Act of 1978, which you see at the top of page 4.
18 Subsequently, another change was made with regard to the fact
19 that the resolution, the Legal Services Corporation
20 Reauthorization Act had not passed the House at the time that
21 you had received the initial draft, and subsequently it had,
22 and that change is made on the second full paragraph of page

1 3 under Review of Legislation and Regulations.

2 In addition, on page 5, there has been the
3 introduction of some alternate language for section C that
4 was provided by Mr. Dana also for your consideration which
5 was provided here in its entirety. Other than that, the
6 other changes are rather minor, kind of a word insertion here
7 and there or stylistic.

8 CHAIRMAN KIRK: Since this was suggested by Howard,
9 I'm going to ask that you comment on the alternate language
10 that you have suggested.

11 MR. DANA: Thank you, Mr. Chairman. I find some of
12 the alternate language that's been adopted by Emilia, and I
13 felt it was important to specifically address the concerns of
14 the IG, as announced by the IG. In a prior draft that I
15 reviewed, it seemed to dwell somewhat more extensively than
16 necessary with management's concern with MAC's concerns, as
17 opposed to the IG's concerns.

18 I just received this now, so I don't know the
19 extent to which that's been toned down in the --

20 MS. DISANTO: Mr. Dana, there really has been
21 actually very minor changes to the sections, so that the
22 Board has much flexibility as it wished with regard to that

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 section.

2 MR. DANA: But basically -- but I thought it was
3 important, in the alternate section, to indicate the two
4 resolutions that the Board has passed in this area and
5 indicate what the principal authors of the IG Act said about
6 H.R. 2039 and the extent to which it is consistent with the
7 IG Act.

8 I think that many, many of the proposals that have
9 been offered to change by the IG and others to address his
10 concerns were, on the one hand, ruled out of order by the
11 Rules Committee, and Mr. Brooks and Mr. Horton, the
12 ostensible author of some of those proposed amendments that
13 were ruled out of order, are of one mind, apparently, that
14 the LSC Act is not inconsistent with the IG Act and that the
15 two are compatible and are fine.

16 Since that's reasonably contemporaneous, in that
17 occurred last week, and, actually, one of our Board motions
18 occurred since the end of this reporting period, it really is
19 our response and the Congress's response to the IG's
20 concerns, and I thought it should be focused primarily on the
21 IG's concerns rather than management's concerns with the
22 legislation.

1 CHAIRMAN KIRK: My own view is that I certainly
2 agree that putting the resolutions in here, that says where
3 we stand, and I think that does it rather clearly and
4 concisely, and to the extent your comments were helpful in
5 doing that, I would agree.

6 My comments on Representative Brooks' comments are
7 a little different. Number one, I didn't know he said this.
8 It didn't play any part in my decision in what I did. I
9 don't think that any of us are in a position now to review
10 the act that was passed a few days ago and determine whether
11 or not it adequately does it.

12 In fact, we're dealing with something that is as of
13 March 31st, but more importantly, I don't know what relevance
14 the comments of the author of a bill really have. Certainly,
15 legislative history has some relevance, but if I want a court
16 of law arguing a statute, and I were to say, "Congressman
17 Brooks just said what he meant," that doesn't have carry much
18 weight, and certainly the votes of all the several hundred
19 members of Congress that voted on Amendment 7 might have
20 something to do with it and the original Inspector General
21 Act, and their votes are just as relevant as
22 Mr. Brooks.

1 So, for that reason, I'm going to favor the draft
2 that was prepared by staff. Ms. Pullen, do you have some
3 comments?

4 MR. WITTGRAF: Mr. Chairman, which draft are we
5 working from?

6 CHAIRMAN KIRK: I'm looking at the draft that I
7 just handed out. It does not have a date of preparation.

8 MR. WITTGRAF: In your last comment, you seemed to
9 be comparing drafts, and that's what --

10 MR. DANA: I think he's referring to that section
11 of the draft that begins on page 3, as compared with that
12 section of the draft that begins on page 5 and runs over to
13 the bottom of 7.

14 MR. WITTGRAF: I just tore up one a few minutes
15 ago. I wonder if we tore up the one that we're using.

16 CHAIRMAN KIRK: Look on page 3. There is a section
17 C on page 3, and then, on page 5, there is an alternate
18 language for section C, and I have another one here. Further
19 comments?

20 MS. PULLEN: Mr. Chairman.

21 CHAIRMAN KIRK: Ms. Pullen.

22 MS. PULLEN: I would advocate picking up from page

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 5, the first paragraph of the alternate and the inset
2 paragraph following, which states, "A resolution of the
3 Board."

4 CHAIRMAN KIRK: Ms. DiSanto, Ms. Pullen is asking
5 that --

6 MS. DISANTO: That both resolutions taken by the
7 Board with regard to the IG be included?

8 CHAIRMAN KIRK: Yes.

9 MS. DISANTO: Okay. That will be taken care of,
10 yes.

11 MS. PULLEN: I think that strengthens it.

12 CHAIRMAN KIRK: Does anyone have any objection to
13 that?

14 (No response.)

15 CHAIRMAN KIRK: Well, maybe we ought to move --

16 MS. PULLEN: I don't think it's at all appropriate
17 to include comments from a congressman in the management
18 report commenting on the Inspector General's report.

19 M O T I O N

20 CHAIRMAN KIRK: Well, I'm going to take this as a
21 motion by you to adopt the staff version, which begins on
22 page 3 and to insert at the --

1 MS. PULLEN: With the understanding that there are
2 a couple little grammatical problems.

3 CHAIRMAN KIRK: And to insert the paragraph
4 beginning, "Assistant," on page 5 and the following quotation
5 at an appropriate place in the original version; is that
6 correct?

7 MS. PULLEN: That is my motion, Mr. Chairman.

8 CHAIRMAN KIRK: Is there a second?

9 MR. WITTGRAF: Second.

10 CHAIRMAN KIRK: It's been moved and seconded that
11 we adopt the original version with the paragraphs noted on
12 page 5 added to the original version. Is there any
13 discussion?

14 MR. DANA: Mr. Chairman.

15 CHAIRMAN KIRK: Yes, Mr. Dana.

16 MR. DANA: I'm not on your committee, but I
17 appreciate your letting me speak. The Board vote that
18 appears at the top of page 4 is the second of two votes. Is
19 it your intention to put both votes in? Is that what I
20 understood?

21 CHAIRMAN KIRK: That's what I understood the motion
22 was.

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 MR. DANA: I think, frankly -- I guess I'll have an
2 opportunity to vote on this when this matter comes up for a
3 full Board discussion, if it does, but I do not accept the
4 IG's, I think, overstatement of the concerns that this new
5 reauthorization act will have on his operation, but I take it
6 that your committee does, in that at the bottom of page 3 you
7 say, "In H.R. 2039's --" in any event, "H.R. 29's" I think
8 that should be apostrophe s, "is limiting effect upon the
9 operations and activities of the OIG cannot be overstated"?

10 CHAIRMAN KIRK: That's correct.

11 MR. DANA: That is your Committee's view of the
12 what the Board's view is?

13 CHAIRMAN KIRK: Well, this does not purport, it's
14 my understanding, to evaluate what was passed by the House.

15 MR. DANA: It purports to evaluate what was
16 proposed at the time? Is that --

17 CHAIRMAN KIRK: That's my understanding. Ms.
18 DiSanto.

19 MS. DISANTO: The purpose of that specific line is
20 to represent the Corporation's Board's view, your view, of
21 the effect of H.R. 2039 upon the operation activities of the
22 OIG.

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 CHAIRMAN KIRK: As of what point in time?

2 MS. DISANTO: As of the term of this report period.
3 The reporting period that we're dealing with here goes from
4 October 1, 1991, to March 30, 1991, recognizing that we had
5 two resolution -- we had a resolution which took place by the
6 Board with regard to the IG on April 6th, I think was the
7 first resolution, but the initial resolution on July 8, 1991.

8 I would insert both of those, noting in a footnote
9 that that second resolution did take place out of the
10 reporting period but it still dealing with an issue that took
11 place during the reporting period.

12 MR. DANA: Mr. Chairman.

13 CHAIRMAN KIRK: Mr. Dana.

14 MR. DANA: I'm concerned that it's confusing, at
15 least. In the second paragraph of section C, we provide
16 current history that indicates that H.R. 2039 is passed,
17 passed the House on May 12, 1992, and then we go on in the
18 very next section and say, "In any event, H.R. 2039's
19 limiting effect upon the operations and activities of the OIG
20 cannot be overstated." So that --

21 CHAIRMAN KIRK: Go ahead. I'm listening.

22 MR. DANA: That's all right. It seems to me that

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 what we are doing by responding with a vote in April after
2 -- when we got his report and the passage of the bill amended
3 in response to his comments to Congress and our comments to
4 Congress are in here.

5 It looks at those we are picking a fight with 2039
6 that has been passed by the House, as opposed to the 2039
7 before the amendment, and if that's not your intention, I
8 just wanted to know.

9 CHAIRMAN KIRK: I see your concern. I'm going to
10 ask Mr. Quatrevaux to join Ms. DiSanto. Mr. Quatrevaux,
11 throughout the week, I have had several conversations with
12 staff office and have been unable to -- I couldn't even get a
13 final copy of it as of Thursday what was actually passed.

14 Do you feel that, as the Inspector General, you're
15 in a position to fully evaluate 2039 as passed and what its
16 effect is going to be on you so that we could have a valid
17 consideration of that?

18 MR. QUATREVAUX: I have not received the final copy
19 either, so I would have to answer, no, I'm not in a position
20 to evaluate. However, it is my understanding that the
21 amendments that were ruled out of order included some of
22 those that would have directly addressed the concerns that I

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 serviced earlier.

2 So with the understanding I must reserve judgment
3 until I see the final document and we have an opportunity to
4 evaluate it, with that said, I would say that I believe that
5 I'll still have some concern with the legislation.

6 CHAIRMAN KIRK: Well, Ms. DiSanto, I think, to
7 satisfy Mr. Dana's concerns and I think for clarity's sake,
8 we need to clarify that we're making this as of March 30th
9 and that as this was passed on Tuesday, we have not even
10 gotten a copy of the final draft at this point, and we're not
11 in a position to make comments.

12 Preliminary, there is an indication there still may
13 be some --

14 MS. DISANTO: Concerns.

15 CHAIRMAN KIRK: Concerns, but without identifying
16 and stating them with any authority. Mr. Dana, would
17 something like that address your concerns?

18 MR. DANA: It might, at least one of them.

19 CHAIRMAN KIRK: Ms. Pullen.

20 MS. PULLEN: Mr. Chairman, I would like to suggest
21 that the last full sentence on page 3 could be rewritten,
22 since this is a management response to the OIG semi-annual

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 report, and therefore ought to be considered in that context
2 as a comment on the Inspector General's discussion of this
3 issue.

4 That sentence can be worded in a way that expresses
5 the Corporation's concern about the potential for H.R. 2039
6 limiting the effect upon operations and activities of the OIG
7 and take out the phrase, "cannot be overstated," rather state
8 it as, "the Corporation expressing concern about the
9 potential for that legislation limiting the operations and
10 activities."

11 MR. DANA: Mr. Chairman.

12 CHAIRMAN KIRK: Mr. Dana.

13 MR. DANA: At the very last meeting, or at the
14 meeting we had on April 6th, it seems to me we spent a lot of
15 time developing a resolution which is set forth here, and
16 that was the reason for my setting forth the resolution in my
17 alternative, rather than characterizing the feeling of the
18 Board, set forth of the Board's position.

19 MS. PULLEN: Mr. Chairman.

20 CHAIRMAN KIRK: Yes.

21 MS. PULLEN: What I am suggesting, rather than mere
22 recitation of the resolutions is that this sentence serves as

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 a response to the OIG's semi-annual report and also as a
2 transition phrase into the resolution and would not be
3 standing on its own but would introduce why the resolution is
4 being quoted.

5 CHAIRMAN KIRK: I'm going to take your comments as
6 a motion to amend by delegating this to staff to work out
7 something that will be presented tomorrow to the full Board
8 rather than fight on the language right now, unless you're
9 prepared to offer an amendment.

10 MS. PULLEN: I'm pretty close.

11 CHAIRMAN KIRK: Okay.

12 M O T I O N

13 MS. PULLEN: Mr. Chairman, I move that the last
14 full sentence on page 3, that the following sentence
15 substitute for the last full sentence on page 3: "The
16 Corporation is concerned that H.R. 2039 may have a limiting
17 effect upon the operations and activities of the OIG, as
18 noted in the OIG's semi-annual --" well, no, no comma --
19 "activities of the OIG as noted in the OIG's semi-annual
20 report."

21 CHAIRMAN KIRK: May I suggest that additional
22 language be inserted that the report is based upon -- I mean,

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 that the resolutions are based upon the original draft of
2 2039, and since it's just recently passed, we didn't have
3 time to --

4 MS. PULLEN: Well, what I heard from the Inspector
5 General is that he still has concerns, and that's why I used
6 the word "may."

7 CHAIRMAN KIRK: I was really addressing Mr. Dana's
8 concern that we make certain that we know as of what date
9 we're addressing this.

10 MS. PULLEN: Well, Mr. Chairman, I used the word
11 "may" in this proposal in order to remove that as a concern,
12 because I believe that the expression of concern may still
13 have relevance.

14 CHAIRMAN KIRK: All right. Mr. Quatrevaux, do you
15 have a comment?

16 MR. QUATREVAUX: No. I just came back. I thought
17 you were going to ask me a question.

18 CHAIRMAN KIRK: Is there a second to Ms. Pullen's
19 motion?

20 MR. WITTGRAF: Second.

21 CHAIRMAN KIRK: It's been moved and seconded that
22 the first sentence be amended as stated by Ms. Pullen.

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 Mr. Quatrevaux, does this sentence accurately reflect your
2 feelings and concerns?

3 MR. QUATREVAUX: I believe it does.

4 CHAIRMAN KIRK: All right. Any further discussion?

5 (No response.)

6 CHAIRMAN KIRK: Hearing none, I'm going to call for
7 a vote on the motion, which will accept the staff version of
8 the draft, particularly paragraph C, with the insertion of
9 the last portion of page 5 and the first portion of page 6,
10 and further with a restated last sentence on page 3. All in
11 favor say aye.

12 (Chorus of ayes.)

13 CHAIRMAN KIRK: Opposed?

14 (No response.)

15 CHAIRMAN KIRK: Passes. Next item for the agenda
16 is consideration of the Inspector General's mid-year report.
17 Now, we've just discussed the semi-annual report, now we're
18 talking the mid-year report.

19 CONSIDERATION OF INSPECTOR GENERAL'S MID-YEAR REPORT

20 MR. QUATREVAUX: A loose term, Mr. Chairman, that I
21 chose, because I just wish to update you on the progress that
22 the office has made since we began our effort. This mid-year

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 report would consist of review of the Fiscal Year '92
2 objectives that I presented to the Board last fall as well as
3 presentation of the OIG Audit Management Plan, which is an
4 agenda item, as well as a presentation regarding OIG's
5 investigation and reporting process, also an agenda item.

6 Last fall, I presented the Board with four basic
7 objectives for Fiscal Year '92. The first was to establish
8 the capability to perform our duties, our statutory duties.
9 A status I would assign to that is nearly completed.

10 We've produced an initial operating concept and a
11 supporting budget, which you, as directors, generously
12 approved. We also developed much of the base that any start-
13 up operation needs, administration, and so forth. We've
14 acquired a great deal of information about LSC and its
15 operations. You might say a learning process will continue.

16 We've recruited to the approved budget level of
17 staffing. I have to advise you without raising it as an
18 issue now that with the aid of hindsight and the technical
19 expertise of the Assistant IG or Audits in identifying
20 Comptroller General requirements, I have determined that we
21 will need additional audit staff.

22 As I said, I won't raise that issue now, because

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 the staffing depends on exactly what is OIG's role with
2 regard to grantee financial statement audits, and that is
3 still an issue. That is also a resource issue, and it would
4 be presented as well to the Audit and Appropriations
5 Committee.

6 The second objective was to assess the charge of
7 widespread fraud. The status is fully completed. We
8 evaluated the basis for that charge and concluded that the
9 data was insufficient to support it. We reported that by
10 memo to the Board as well to the House Appropriation's
11 Subcommittee in response to their questions, and, of course,
12 it appears in the semi-annual report that you've reviewed.

13 It's not to say that we have any firm knowledge
14 about what the true state of affairs is. That's something
15 that we can acquire, but it will take quite a period of time
16 to have that data.

17 The third objective was to open a fraud hotline.
18 The status is that we plan on opening it in July or August.
19 We did, more or less, program it once we were aware of the
20 move to the new building, for it not to take place prior to
21 that. We've initially reviewed standards for that sort of
22 operation, met with GAO and several federal agencies with

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 hotline operations.

2 We've evaluated and selected the telephone
3 configuration, the other technical aspects. Policies and
4 procedures are almost complete. We have one last hurdle. We
5 need to conduct a public awareness program; that is, flyers,
6 brochures, that sort of thing, and we had originally planned
7 that as part of the overall OIG information program, which
8 really takes me to the last objective, which was to conduct
9 just such a program.

10 The purpose was so that LSC employees and grant
11 recipients know what we do and how it relates to them. The
12 status is, within LSC it's completed or at least the initial
13 round. I think there were at least nine separate small group
14 sessions that I conducted on that topic.

15 As far as the field, it's quite delayed. We need
16 to develop various written materials that, essentially, tell
17 the field what it is we do and what our role is with them.
18 That's delayed because, in terms of audits, it's still
19 undefined. What I mean by that is we have -- tomorrow
20 morning, the Audit and Appropriations Committee meets at 7:00
21 to consider the issue of the Corporation's financial
22 statement audits, that issue.

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 That's not what I'm speaking to. There is
2 present no scheduled consideration of the OIG role in grantee
3 financial statement audits. I've been in communication with
4 the chairman of the Audit and Appropriations Committee, and I
5 believe most of this committee holds that correspondence.

6 The issue there is which organization within LSC,
7 corporate management or OIG, has primary responsibility for
8 the grantee annual financial statement audits. I have not
9 taken a position on that. I simply want to say that that
10 responsibility needs to be defined.

11 It's not necessary to sign it this month; that is,
12 at this meeting, but I do request that the Board make an
13 attempt to make such a determination by July. As I tried to
14 indicate, various things that we wish to do, must do, are
15 related to that and would like to proceed.

16 I'm not sure how the Board might wish to consider
17 that, because, in this case, it appears there are two
18 committees with interest. So I request your thoughts on what
19 approach might be best, but what I do want to request is that
20 the issue be taken up, that a determination be made by the
21 Board in its role as head of the entity to determine just
22 what areas are considered program operating responsibilities

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 and those that are not.

2 That's all I have with the mid-year report, at
3 least my portion of it, and I'll take any questions on what I
4 said.

5 CHAIRMAN KIRK: Let me address one early items you
6 mentioned was that you may need more auditors. I think that
7 this committee is probably going to take a role in reviewing
8 your budget request and then making a recommendation to the
9 Audit and Appropriations Committee.

10 In doing that, I'll note that it looks like your
11 budget is some 10 percent of the Executive office budget now.
12 I believe that you told me, when we were interviewing, that
13 you thought that the Office of Inspector General could pay
14 for itself, and I think it can.

15 I think there are a lot of ways that you can save
16 money, and what have you, but we may want to see some
17 positives at some point, when you reevaluate this and say,
18 "Here's what I need in additional manpower, and here's what
19 we've done, and here's how we've helped." Just my suggestion
20 to you.

21 MR. QUATREVAUX: Certainly. I would make two
22 points in comment. First is, we're, basically, a start-up

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 operation, and I mean that sincerely, and, as a consequence,
2 there is always a lag between opening the door and building
3 an organization and the time profits start to roll in.

4 The second is, with regard to the percentage of the
5 budget, I think it's important to realize that the function
6 of the office is related not simply internally to the
7 Corporation but to the field as well. So I'm not sure that
8 the M&A line, if you will, in the budget is a proper
9 baseline.

10 I just wanted to make those comments, and I
11 certainly agree with you, you need and deserve every
12 justification for any resource.

13 CHAIRMAN KIRK: I'd like to move on to the issue of
14 the authority of the Inspector General, and just to bring
15 everybody to date, the Corporation really was not operating
16 with a fully functioning Inspector General's office for a
17 period of time, and it's only since Mr. Quatrevaux has come
18 in that we've taken a proactive role from the point of view
19 of the Inspector General.

20 I think that the letters from Senator Glenn and our
21 management responses show that we have given a lot of support
22 to the Inspector General, and we recognize his office and its

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 functions. One of the areas of -- well, there are two areas
2 of questioning involving auditing. One is the audit of the
3 Corporation itself, the outside independent audit that, up
4 until this time, has been supervised by the Audit and
5 Appropriations Committee.

6 I believe that was under its delegation when the
7 committee was created. Since that time, the Inspector
8 General's Act has come to our attention, and appears to, at
9 least through a lot of interpretations, usurp that authority,
10 and I hope that this issue can be determined and settled with
11 the Corporation.

12 I guess that, ultimately, it could be an issue
13 determined in the courts. I don't know, but it is a
14 sensitive issue. Mr. Dana and Mr. Quatrevaux have exchanged
15 correspondence and some opinions, and it has not been settled
16 at this point. Is that a fair statement, Mr. Quatrevaux?

17 MR. QUATREVAUX: I believe it is.

18 CHAIRMAN KIRK: So at this point I'll ask for
19 questions and comments from the committee members.
20 Mr. Dana, I will, again, offer you an opportunity to comment,
21 and start off by, if I didn't accurately express the issues
22 that exist on that first point, let me know.

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 MR. DANA: No, I think you did. This is a matter
2 that, as I think the Inspector General indicated, there are
3 really two issues. One relates to the Corporation's own
4 audit, and the second issue relates to the audits that are
5 performed in the field.

6 I've received, as you may know, a proposed
7 guideline from the IG, which I've shared with management.
8 The IG has provided me with a legal opinion from his general
9 counsel. I've asked management to do the same. I understand
10 that a memo is in draft form.

11 I think that we are probably not going to be in a
12 position, as a committee, to make a recommendation tomorrow,
13 and I was happy to hear that the issue is not something that
14 has to be decided tomorrow, but I think it's an important
15 issue for the Corporation, and, presumably, at its next Board
16 meeting in June, we would have a recommendation.

17 I think, ultimately, this is not a decision for the
18 Audit and Appropriations Committee or the IG Committee but
19 for the Board. We have to draw some preliminary lines or
20 describe as the head of management and as the head of the IG
21 describe what the respective assignments are, as long as
22 we're consistent with the Act.

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 I do think we have some discretion at the margin,
2 so I would encourage your committee to grapple with this
3 issues as well, and, ultimately, the Board will decide.

4 CHAIRMAN KIRK: Thank you, Mr. Dana.

5 Preliminarily, I'm coming down pretty strongly, I think, on
6 the issue of the IG having control of the internal audit of
7 these offices. The jury's out on the other one, in my
8 opinion. I think you are probably just the opposite, the
9 jury is out on this one, but I strongly favor no IG
10 involvement in the field audits.

11 MR. DANA: Well, my view -- I'm waiting for my
12 lawyer, one of my lawyers, to tell me what he thinks. I've
13 received an excellent opinion, as you have, from the IG's
14 lawyer, and I thought it was very persuasive, and I'm
15 reserving judgment until I read the other lawyer's
16 assessment. So I think that's really where I am.

17 CHAIRMAN KIRK: Thank you. Mr. Quatrevaux, shall
18 we go on to the audit and management plan?

19 MR. QUATREVAUX: With just one comment first. With
20 regard to the grantee financial statement audits, it's not an
21 issue of whether OIG should have some or not responsibility.
22 The issue is whether OIG should have the primary

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 responsibility for the Corporation or simply an oversight
2 role.

3 Let me proceed to first introduce to you Ms. Amanda
4 Mears, and graduate of Drake Law School, who drafted the
5 opinion to which several of you have referred. She comes to
6 us from being CEO of a bi-cultural institute in Guadalajara,
7 Mexico for several years, and prior to that time several
8 years in the Public Integrity section of the Department of
9 Justice, and prior to that about four or five years as U.S.
10 Attorney in charge in Kansas City, Missouri.

11 She is here, obviously, to give me counsel, to give
12 office the counsel, and has done a bang-up job. I have
13 already introduced at an earlier meeting Ms. Karen Voellum,
14 who is your assistant IG for audits, and she's ready to
15 present an audit management plan to you.

16 PRESENTATION BY KAREN VOELLUM

17 MS. VOELLUM: Good afternoon. It's a pleasure to
18 be here. First, I would like to introduce our current audit
19 staff, if I may. I think we have one hiding behind Scott, so
20 maybe if Scott could just move over a little.

21 In the front is Scott Young. He's an LSC employees
22 who has come on board with the audit staff just recently, and

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 then to your left is Bob Larosse. He's been with the audit
2 staff since last September. Charmane Romear, some of you may
3 know, of course, has been with LSC for a number of years, and
4 Reginald Brockington, who started with us in January of this
5 year. Thank you.

6 The LSC Office of Inspector General has prepared,
7 for your information, a preliminary start-up audit management
8 program. This plan includes both general and administrative
9 activities addressing the management aspect of auditing and a
10 policeman audit work plan.

11 The audit work plan attempts to lay the groundwork
12 for later decisions as to the appropriate levels of audit
13 coverage with respect to both the Corporation and the
14 recipients. To aid you in understanding our reasoning for
15 determine that certain activities are necessary to the start-
16 up, we've identified some of the legislative and regulatory
17 requirements under which the IG is expected to operate.

18 The OIG intent is to serve the LSC Board of
19 Directors, by providing independent and objective reviews
20 relating to the programs and operations of LSC and by
21 providing a means for keeping you, the entity, the head of
22 the entity, fully and currently informed about the problems

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 and issues relating to the administration of its programs and
2 operations and necessity for and progress of corrective
3 action.

4 The IG Act states that each Inspector General shall
5 comply with standards established by the Comptroller General
6 of the United States. These standards are embodied in the
7 Government Auditing Standards, referred to commonly as the
8 Yellow Book.

9 The Yellow Book contains the standards for audits
10 of government organizations, programs, activities, and
11 functions, and of government funds received by contractors,
12 nonprofit organizations, and other nongovernment
13 organizations.

14 The legislation further states that the Inspectors
15 General are to ensure that audit work conducted by nonfederal
16 auditors of federal organizations, programs, and activities
17 comply with these standards. I've put together a chart that
18 introduces five primary activities related to the start-up of
19 the audit management.

20 On the left, point 1 is to develop the foundation
21 of the OIG program. I've identified three primary activities
22 that are essential to providing a firm foundation from which

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 we'll operate. These activities are essential not only
2 because they're good standard auditing practices, but they're
3 also identified within the Yellow Book. These are the
4 general and administrative activities.

5 Moving on to point 2, determining the audit
6 universe --

7 CHAIRMAN KIRK: I have a question. What's a
8 resource management program?

9 MS. VOELLUM: I'm going to briefly go over the
10 chart and then go back and more fully define what each of the
11 areas covers or encompasses. Determining the audit universe,
12 basically, this is taking inventory of LSC's activities and
13 programs and operations.

14 This inventory then is used to develop the annual
15 audit plan. The items within the inventory are rated
16 according to their risk factors, and this becomes the way in
17 which we'll set our priorities for the subsequent years or
18 years following.

19 The universe, the audit, the information gained
20 from this audit activity, then falls or typically falls
21 within three general categories. One is financial statements
22 audits. Another is financial related reviews, and the last,

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 of course, is performance reviews.

2 MR. QUATREVAUX: Mr. Chairman, if I might, I'd just
3 like to point out that this chart and Ms. Voellum's
4 presentation was developed based on assumption about the
5 audit responsibilities. We all recognize that the audit
6 responsibilities are still at issue, but I just wanted to
7 mention that.

8 MS. VOELLUM: Going back now to provide for of the
9 specifics under each of the primary activity areas, I'd like
10 to just go over the three major points that I have made under
11 the foundation. The first is the Audit Policy and Procedures
12 Manual. The purpose of the Policy and Procedures Manual is
13 to provide guidance to the auditors in performance of their
14 work and provide the auditors guidelines in reporting their
15 results.

16 Audit organizations conducting government audits
17 should have an appropriate internal control system in place.
18 The internal quality control system established by the
19 organization should provide reasonable assurance that it has
20 established and is following adequate audit policies and
21 procedures and has adopted and is follow applicable auditing
22 standards. This provides the framework from which we will

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 develop our audit manual.

2 The next issue is resource management program.
3 This consists primarily of two elements: one is auditor
4 training and cost management. The purpose of the auditor
5 training system is to develop and maintain training records
6 in order to determine appropriate auditor training and to
7 evaluate proficiency acquired through training.

8 The system will also track the various tasks
9 required within a particular audit assignment, in order to
10 maintain a record of auditor experiences. The record will be
11 used to determine appropriate future audit assignments.
12 These requirements are established within the Yellow Book, in
13 that the staff assigned to conduct an audit should
14 collectively possess adequate professional proficiency for
15 the tasks required.

16 To meet the Yellow Book standard, the audit
17 organization should have a program to ensure that its staff
18 maintains professional proficiency through continuing
19 education and should complete every two years at least 80
20 hours of continuing education and training, which contributes
21 to the auditor's professional proficiency.

22 The second element, the cost management system, the

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 OIG will develop and maintain a record of general and
2 administrative costs and audit labor costs required to attain
3 a particular level of audit coverage. Over a period of time,
4 we will be able to better determine what levels of resources
5 are adequate for a particular project.

6 The third main element is the audit management
7 program. This, too, consists of two primary activities:
8 audit tracking and audit follow-up. These activities require
9 considerable effort, because they require a coordination and
10 cooperation of other LSC operating units.

11 The purpose of audit tracking is to develop and
12 maintain an accurate record of all audit assignments along
13 with the associated tasks. This is do that in order to avoid
14 duplication and over-auditing. The second element, audit
15 follow-up, it's purpose is to report that prompt and
16 appropriate corrective actions have been taken on
17 recommendations.

18 This aspect of audit management in particular will
19 require coordination and cooperation from other units within
20 LSC. In order to ensure more consistency in follow-up and
21 therefore facilitate analysis of recurring problems, our
22 follow-up system will track all final reports issued to the

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 entity by the OIG, GAO, independent accounting firms, or
2 regulatory units such as MAC, where reports relate to
3 internal audits of the entity's programs, financial audits,
4 post-performance contract audits, preaward contract, and
5 inspections by the entity regulatory or inspection units and
6 as they relate to financial matters that may result in fines
7 or penalties, assessments or other monetary recoveries.

8 MR. QUATREVAUX: In essence, we are charged with
9 tracking everyone's audit report, anything that pertains to
10 the Corporation or its programs.

11 CHAIRMAN KIRK: What do you mean, charged with
12 everybody's audit report? Are you talking about the field
13 audit reports or other audits reports inside the --

14 MR. QUATREVAUX: Field audit reports, any audit
15 that audits either the Corporation itself or, and let me
16 choose my words carefully with regard to the grantees, at
17 least those audits performed with LSC funds, as well as any
18 GAO or any outside body is our responsibility to, more or
19 less, maintain a score card, there were these finds, action
20 has been taken. These are closed. These remain open; that
21 sort of thing.

22 CHAIRMAN KIRK: That's the minimum that you would

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 be involved in with the field would be as an overseer and a
2 score card, but it may be deeper?

3 MR. QUATREVAUX: Right. Right.

4 MS. VOELLUM: In order to exercise due professional
5 care as described, again, in the Yellow Book, we are, as we
6 were saying just a moment ago, required to follow up on known
7 findings and recommendations. These three activities, the
8 OIG policy and procedures manual, the resource management
9 program, and the audit management program make up the audit
10 management foundation.

11 From here we move into the actual audit activities,
12 and you'll see, too, determine the audit universe. The term
13 "universe" is used to mean the whole body of things to be
14 reviewed or audited, all those activities had an organization
15 does in order to perform its mission.

16 Audit organizations are required to periodically
17 review its audit universe and determine coverage, frequency,
18 and priorities. We're also required to obtain a working
19 understanding of the operations of the unit to be audited.
20 In order to identify this universe, a number of practices are
21 typically used: interviews, questionnaires, review of
22 currently policies and procedures, organization charts, and

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803
WASHINGTON, D.C. 20006

(202) 296-2929

1 other documents including financial statements and internal
2 financial data.

3 From this information, annual audit plans are
4 developed, and priorities are set based on the risk and
5 vulnerability. The risk is based on a number of factors and
6 may include quality of internal control, flow of funds,
7 public disclosure implications, management interest,
8 complexity, results and time since the last audit, internal
9 audits, external audits; all these are used and applied to
10 those elements identified in the universe.

11 To accomplish this task, for example, with the
12 field, we plan to visit a number of sites to talk with the
13 program directors, seeking their input as to issues and
14 problems they need addressed or reviewed, their opinions and
15 their concerns. From this information, we'll develop a
16 questionnaire that will be sent to all project directors
17 asking for their input.

18 Results of this information combined with
19 information gathered from researching other documents and,
20 perhaps, through interviews with other interested parties
21 will establish a database to help us identify which areas
22 need review. This evident will be described into two

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 projects, one is the field, one is the Corporation.

2 This information combined is then used to develop
3 the annual plan and the audits, as I said before, fall into
4 three primary audit areas, audit categories. Moving to
5 three, the corporate financial statement audit. Financial
6 statement audits determine whether the financial statements
7 of an audited entity present fairly the financial position,
8 its results of operations and cash flows or changes in
9 financial position in accordance with generally accepted
10 accounting principle and whether the entity has complied with
11 the laws and regulations for those transactions and events
12 that may have material effect on the financial statements.

13 With the corporate financial statement audit, we
14 will provide the Board of Directors with independent and
15 reasonable assurance that the annual corporate statement
16 audit has been properly planned, that tested had been
17 adequate, and that irregularities and deficiencies are
18 reported to the Board.

19 With respect to this audit, the OIG will be the
20 principal interface between the Corporation and the
21 independent public accounting firm. We will develop the
22 solicitation and evaluate the proposals received from both a

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 cost and technical perspective.

2 Well present the best qualified bidders to the
3 Audit and Appropriations Committee for selection of an audit
4 firm, and we will provide guidance to the audit firm through
5 the contract and through the participation and development of
6 the engagement letter. This guidance will include audit
7 standards to be followed and specific areas of interest, as
8 identified either through management or from the Board
9 itself.

10 MR. QUATREVAUX: Let me interrupt to say once again
11 that this element is at issue, and Ms. Voellum simply
12 described how such an audit could be conducted.

13 MS. VOELLUM: Moving on to financial-related
14 reviews. We will establish a program to test financial
15 reporting by the Corporation and, where appropriate, the
16 recipient. Financial-related audits include determining
17 whether financial reports and represented items such as
18 elements, accounts, or funds are fairly presented, whether
19 financial information is presented in accordance with
20 established or stated criteria, and whether the entity has
21 adhered to specific financial compliance requirements.

22 Financial-related audits may include segments of

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 the financial statement, financial information, reports and
2 schedules, contracts, grants, internal control systems,
3 computer based financial systems, and fraud. The Yellow Book
4 sets standard for relying on the work of others and requires
5 that when the other auditors are external auditors, tests
6 should include making inquiries into professional reputation,
7 qualification, and independence of auditors.

8 The auditor should consider whether to conduct
9 additional tests and procedures, such as reviewing the audit
10 procedures followed and the results of the audit conducted by
11 the other auditors, review the audit programs of the other
12 auditors and review working papers, including their
13 understanding and assessment of the internal controls.

14 Tests of compliance and conclusions reached by
15 other auditors: The auditors may review the documentary
16 evidence in the other auditors' working papers to make
17 supplemental tests of the work conducted. As such, the OIG
18 will establish a quality assurance program or quality control
19 to provide the Board of Directors, as well as the executive
20 directors of the programs and local boards with reasonable
21 assurance that the scope and depth of the examinations used
22 in the preparation of their financial statement audits were

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 sufficient to provide a reasonable chance of detecting
2 material error deficiency or irregularity should such exist
3 and to ensure that the independent auditor complied with
4 professional standards governing the audit and that the work
5 performed supports the audit report.

6 The effort will be initiated through evaluation of
7 the current desk review activities and testing current
8 audited financial statements. Further, the OIG will conduct
9 reviews of the corporate records and activities, for example,
10 accounts receivable activities, accounts payable activities,
11 payroll, and the like.

12 Moving to performance reviews, which will -- these
13 fall into two categories, generally. First is economy and
14 efficiency, and second is program. Economy and efficiency
15 audits include determining whether the entity is acquiring
16 and protecting and using its resources economically and
17 efficiently, the causes of inefficiency are economical
18 practices and whether the entity has complied with loss and
19 regulations concerning matters of economic and efficiency.

20 These audits may consider whether an entity is
21 follow sound procurement practices, is acquiring appropriate
22 type quality and amount of resources, is properly protecting

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 and maintaining his resources and is avoid duplication and
2 effort of work that serves little or no purpose.

3 The second category is program audits. Program
4 audits include determining the extent to which the desired
5 results or benefits established by the legislature or other
6 authorized body are achieved, the effectiveness of
7 organizations, programs, and activities, and whether the
8 entity has complied with laws and regulations applicable to
9 the program.

10 The program audits may assess whether the
11 objectives of a proposed or new or ongoing program are
12 proper, suitable, relevant, determine the extent to which a
13 program achieves a desired result, assesses the effectiveness
14 of the program and/or of individual program components,
15 identifies factors inhibiting performance.

16 MR. QUATREVAUX: Let me just comment that the use
17 of the term "program" is a generic one. It's not intended to
18 refer to a grantee.

19 MS. VOELLUM: This is true. With that said, since
20 monitoring is a primary and critical operation of LSC, our
21 initial performance review will be directed towards that
22 component of the Corporation. At the present time, it's not

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 on the schedule until '93, but I believe that that unit will
2 be the first, as I said, because of its criticality.

3 CHAIRMAN KIRK: Are you finished?

4 MS. VOELLUM: Yes.

5 CHAIRMAN KIRK: Any questions? Mr. Dana.

6 MR. DANA: When it's my turn, Mr. Chairman.

7 CHAIRMAN KIRK: Any questions from committee
8 members?

9 MS. LOVE: In your performance reports, is this
10 over the field or the overall staff of LSC? And who
11 determines, after they do the performance report, how do you
12 do your step increases and all this? That might not fall
13 into this category, but who determines the raises for the
14 staff of LSC and with the performance reports or the evals?

15 MS. VOELLUM: That would be a management decision.
16 We would not address issues that would relate to raises or
17 any step increases.

18 MR. QUATREVAUX: Let me, if I can, to answer your
19 question. These performance reviews, Ms. Love, are
20 essentially reviews of how well a function is being
21 performed, how well an organization is doing its job. How
22 well is a hard thing to say, but it's more in the nature of

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 identifying impairments to better performance, and that sort
2 of thing, and we're speaking internally there, talking to the
3 Corporation.

4 The Corporation has numerous functions. It's got
5 line functions, such as monitoring. It's not functions such
6 as personnel, and that sort of thing. With regard to the
7 field, we would not be getting into evaluation of individual
8 programs, individual grant recipient programs.

9 To any work we did evaluating field performance
10 would be within the context of an evaluation of the
11 legislative program results, which is to say the entire Legal
12 Services Corporation and how well the whole notion that
13 Congress had in mind was being carried out and what
14 impairments existed to doing that whole job better.

15 I just wanted to clarify we're not attempting to
16 evaluated individual grant recipients.

17 CHAIRMAN KIRK: Any further questions from the
18 committee members?

19 (No response.)

20 CHAIRMAN KIRK: Thank you for that question,
21 Ms. Love. That was a good one. Mr. Dana.

22 MR. DANA: Thank you, sir. Where would financial

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 constraints, if any, come into this analysis, if you
2 understand --

3 MR. QUATREVAUX: I understand. If I may answer, we
4 will, obviously, be constrained by resources, as will every
5 organization. We will do our utmost to comply with
6 Comptroller General standards and execute a program that
7 serves your needs as head of the entity as best we can with
8 the resources that you provide.

9 MR. DANA: My thought in that regard is that that's
10 really a two-way street, in that you have to tell us what
11 another four auditors will buy us, and then we have to make a
12 judgment, assuming we have the -- and our judgment is
13 preliminary, in that it's really a recommendation to Congress
14 as to how much we get.

15 So, in terms of chicken and an egg business, you've
16 really got to make the case for additional funding in order
17 for us to evaluate it and make our own recommendation to
18 Congress in that regard, but, basically, the answer to my
19 question is that superimposed this whole analysis, you're
20 trying to get this into however much money you have?

21 MR. QUATREVAUX: That's correct, and for any given
22 resource level, I would give you what you might expect in the

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 way of a bang for your buck. I would also identify any areas
2 in which we could not execute at a minimum level the
3 responsibilities that we have.

4 MR. DANA: In the Yellow Book you spoke of, and I
5 much prefer to refer to it as the Yellow Book, because I
6 can't remember the long name, but it's the Comptroller
7 General or the --

8 MS. VOELLUM: Government Auditing Standards.

9 MR. DANA: Okay. In that, that sets forth
10 standards which you must follow, as I understand it, and it
11 sets forth standards that are to be applied by people who
12 carry out functions under your supervision and control?

13 MS. VOELLUM: Yes.

14 MR. DANA: So that, by way of example, if the
15 outside auditor, annual outside CPA that we hired, were to be
16 supervised by your office, they would have to follow the
17 Yellow Book, in preparing our annual audit; is that correct?

18 MS. VOELLUM: That can be negotiated at contract
19 whether they follow the Yellow Book, which is the preferable.
20 However, if they're under contract, follow generally accepted
21 auditing standards, that is not unacceptable.

22 MR. DANA: So it's a matter of contract as to

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 whether or not the outside auditor follows the Yellow Book?

2 MS. VOELLUM: Well, at this particular point it may
3 be, yes.

4 MR. QUATREVAUX: If I can jump into this, to which
5 audit do you refer, Mr. Dana?

6 MR. DANA: The annual audit of the Corporation.

7 MR. QUATREVAUX: Well, we have to comply with the
8 LSC Act, which says first that the auditors will be
9 independent, which we will also follow under the Yellow Book,
10 that they be external auditors, which, under the Yellow Book,
11 it could be either internal or external, and as to the
12 standards, the Act specifies generally accepted auditing
13 standards, as opposed to --

14 MR. DANA: Is the Yellow Book inconsistent with
15 generally accepted auditing standards?

16 MR. QUATREVAUX: No. What it is, it's a bit more
17 demanding, and the primary difference is in the area of
18 internal controls, the testing of internal controls.

19 MR. DANA: So it is your view that the Yellow Book
20 is not required by the -- need not be complied with by the
21 outside auditors?

22 MR. QUATREVAUX: I'd say there is a legal issue as

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 to the precedents of the two pieces of legislation.

2 MR. DANA: Do you think the answer to that question
3 would vary depending upon the extent to which your office is
4 primarily responsible for the oversight?

5 MR. QUATREVAUX: No, I do not, because our office
6 has the responsibility to ensure that all audit work complies
7 with Comptroller General standards. In this case, however,
8 we've got the basic statute imposing a slightly different
9 standard. The difference is not as great as you might
10 believe.

11 MR. DANA: So, in your view, must the Yellow Book
12 be complied with by grantees in the field all over the
13 country because federal funds are involved?

14 MR. QUATREVAUX: That's a question we've given some
15 thought to. Basically, we're at a situation where we've not
16 resolved that question. It does get back to the Act itself
17 or the two pieces of legislation. I don't think it really
18 matters who conducts the audit.

19 The IG Act, as you I'm sure recall, places the
20 responsibility for the establishment of audit policy with OIG
21 and gives that simultaneous charge to ensure that any
22 auditors other than those within the organization comply with

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 those standards.

2 It's not a simple answer. I guess, at this point,
3 it's fair to say it's to be determined, to be determined by
4 you, by us as best we can, and, perhaps, and I hope not, by
5 others.

6 MR. DANA: Well, it would be helpful to me if I had
7 some sense of the difference, in terms of the quantitative
8 cost of complying with the Yellow Book, as opposed to
9 generally accepted accounting principles.

10 CHAIRMAN KIRK: Mr. Quatrevaux, do you think you
11 could respond to Mr. Dana on that in the next few weeks?

12 MR. QUATREVAUX: Certainly. We'll do that.

13 MR. DANA: I think that would be helpful to all of
14 us in evaluating some of the other issues that are on the
15 table.

16 CHAIRMAN KIRK: And Ms. Mears, you may want to give
17 some input to that between the two of the -- which one
18 prevails.

19 MR. QUATREVAUX: I'd just like to make one thing
20 fairly clear. If, for example, the Corporation financial
21 statement audit were conducted as it is now, that is, without
22 any consideration of the Yellow Book, and, as I indicated,

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 the primary difference is the testing of internal controls,
2 but if the audit were to proceed as it has been, then my
3 office and the development of the corporate audit universe
4 would detect a gap, a void, assign a risk to it, and conduct
5 that ourselves, the test of the internal controls. So either
6 way we're going to test internal controls.

7 CHAIRMAN KIRK: Anything else? We're running way
8 behind.

9 (No response.)

10 CHAIRMAN KIRK: I appreciate your excellent report.
11 If you have a copy of that, and you want to distribute it to
12 members of the Committee, I think we'd all appreciate
13 receiving that.

14 MR. QUATREVAUX: We'll prepare a report for you.

15 CHAIRMAN KIRK: I'm not taking breaks. I'm moving
16 right on to Mr. Holliday's report.

17 MR. QUATREVAUX: I have never introduced Mr.
18 Holliday to you, and the reason for that is that he was there
19 when I arrived, more than anything else.

20 MR. WITTGRAF: He's come to some of our offices and
21 introduced himself.

22 MR. QUATREVAUX: Well, that's right. Some of the

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 directors have met him personally. Mr. Holliday is retired
2 from the Washington D.C. Metropolitan Police Department where
3 he served the rank of lieutenant, and several tours in
4 internal affairs provide him a very good background for this
5 sort of job.

6 CHAIRMAN KIRK: Mr. Holliday, we are running
7 behind, and if you have prepared remarks, I think that we
8 would all appreciate if you would give us a copy, and we
9 could read it in our spare time and what have you, to
10 whatever extent we can try to make up some of this.

11 MR. HOLLIDAY: What I will do, I will accelerated
12 process. I will go over a short overview of what I have. I
13 also have the flow chart that we had prepared for you. I
14 will leave that with you to review. If you have any further
15 questions, you can contact us.

16 CHAIRMAN KIRK: This looks like a wiring diagram
17 for the Shuttle.

18 MR. QUATREVAUX: It works better.

19 PRESENTATION OF ROBERT HOLLIDAY

20 MR. HOLLIDAY: If I may, I will get started. Good
21 afternoon, Mr. Chairman, members of the Board. Let me begin
22 my introducing myself. I'm Robert Holliday, the Assistant

1 Inspector General for Investigations in the Office of
2 Inspector General.

3 I would at this time like to introduce the members
4 of my staff. Would you please stand. Standing to my left is
5 Mr. Harold Tafe, Ms. Brenda Harriman, and behind me is
6 Mr. Robert Shadham. Ms. Mary Green is also a member of the
7 staff. She was unable to be with us today. Thank you.

8 Today I'd like to provide you with a brief overview
9 of the investigative function. This overview will consist of
10 what our investigative responsibilities are, how we receive
11 information and complaints, what the investigative process
12 entails, our report process after the completion of the
13 investigation, and will include a flow chart which reflects
14 the entire process from beginning to end.

15 Our investigative responsibilities are to receive
16 and evaluate allegations of criminal and noncriminal
17 misconduct as well as employee complaints from both LSC and
18 grantee employees. The scope of the employee complaints
19 would be concerned with the possible existence of an activity
20 constituting a violation of law, rules, regulations, or
21 mismanagement in the gross waste of funds.

22 In addition, we conduct inquiries and

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 investigations as necessary, and undertake OIG initiatives to
2 prevent and detect fraud. Examples of OIG initiatives would
3 be evaluation and analysis of trends to identify measures to
4 deter fraud, waste, and abuse.

5 This would also include information developed by
6 the OIG auditors which could consult in a criminal
7 investigation. We receive our information and complaints
8 from sources, examples being LSC employees, programs, and
9 their employees, Congress, the Office of Monitoring, Audit,
10 and Compliance, Board members, and concerned citizens.

11 The method of receipt of the complaints are from
12 the hotline, which will be operational in the summer of '92,
13 interviews, correspondence, and from OIG initiatives. The
14 investigative process consists of conducting inquiries and
15 investigations both criminal and noncriminal and making
16 referrals to the appropriate offices and agencies.

17 The inquiry process determines whether or not an
18 investigation of the matter will be required. Internal
19 referrals, meaning within LSC, would be matters received by
20 the OIG which did not warrant further review by our office,
21 or the matter did not fall within the purview of our
22 authority.

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 An example of internal referral would be to the
2 executive office, the Office of Monitoring, Audit, and
3 Appliance, or the Office of Human Resources. External
4 referrals outside of Legal Services Corporation in criminal
5 cases would be made to federal, state, and local prosecutors,
6 and to federal, state, and local agencies.

7 In noncriminal administrative cases, referrals
8 could be made to federal, state, and local agencies, and to
9 program management. The report process and significant
10 inquiries in investigations consists of immediate initial
11 notification to the Board, and, upon completion of the
12 inquiry or investigation, a complete final report would be
13 provided to the appropriate administrator, prosecutor,
14 tribunals.

15 In addition, the LSC Board of Directors will be
16 provided the final report and any Freedom of Information
17 requests would be handled according to the proscribed
18 requirements of law. In other inquiries and investigations
19 not considered significant cases, the original final report
20 will remain in the OIG case file, and a complete final report
21 would be provided to the appropriate administrator,
22 prosecutor, tribunals.

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 A final report would be provided to the LSC Board
2 upon request, and any Freedom of Information request would be
3 handled according to proscribed requirements. In situations
4 warranting recommendations to LSC management as a result of
5 an inquiry or an investigation which has uncovered weak
6 management controls, a report will be provided to management
7 citing the weaknesses for their review and appropriate
8 corrective action.

9 I, at this time, had intended to go into the flow
10 chart that I have provided you for your review, but if you
11 choose to review that independently, that concludes my
12 presentation. If you have any questions, I'll be more than
13 happy to answer them for you.

14 CHAIRMAN KIRK: It's very easy to follow. Any
15 questions? Mr. Chairman.

16 MR. WITTGRAF: Mr. Holliday, you and Mr. Quatrevaux
17 each referred to the so-called "hotline." I guess the
18 hotline is available to anybody who learns of the number, but
19 for whose use do you anticipate the hotline as principally
20 designed?

21 MR. HOLLIDAY: The hotline -- I'll give you an
22 example of what we plan on doing. We'll have a 1-800 number

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 for across the country. We'll also have an additional local
2 number, and that information will be available to anyone, any
3 clients of the programs, any employees of the programs, along
4 with employees of LSC, and we will be, basically, concerned
5 with fraud, waste, and abuse or any information they may
6 have.

7 MR. WITTGRAF: In publicizing it, to which Mr.
8 Quatrevaux referred earlier this afternoon, you would be
9 attempting to reach whom primarily?

10 MR. QUATREVAUX: If I may, we would be attempting
11 to reach anyone who does business with or who has any
12 association with LSC. Obviously, we cannot saturate the
13 general public, but, essentially, the hotline is there for
14 anyone who has any allegations of wrongdoing against anyone
15 in the Corporation or in recipient perhaps.

16 When I say allegations of wrongdoing, there are
17 different standards for internal to the Corporation which
18 could include abuse, violation of policy, say a personnel
19 policy; whereas, in terms of field, the focus is exclusively
20 on fraud, waste, and abuse.

21 MR. WITTGRAF: Mr. Chairman, may I ask another
22 question?

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 CHAIRMAN KIRK: Sure.

2 MR. WITTGRAF: Thank you. Again, Mr. Holliday or
3 Mr. Quatrevaux, in your semi-annual report, as in the last
4 semi-annual report, you addressed the allegations of the
5 immediate past Inspector General regarding, I forget which
6 ones offhand, but essentially widespread incidents of
7 grantee, employee abuses.

8 In the current report, then, covering the last six
9 months through March 31st of this year, you indicate
10 understandably that it's difficulty to gather reliable data
11 in order to more accurately estimate the level of so-called
12 fraud or criminal conduct.

13 Within another six months' time, do you think it
14 would be possible to either validate or invalidate the last
15 IG's broad statement in that regard?

16 MR. QUATREVAUX: No, I don't. I think it will take
17 a considerably longer period than several years, and let me
18 say that the basis for that information will come from many
19 sources, not simply investigations, but I think we need a
20 fully active program, both audits and investigations, to
21 really get a sense of that.

22 MR. WITTGRAF: Are either of you, at least in terms

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 of this open session, as opposed to any closed session
2 dealing with specific allegations, are either of you prepared
3 to suggest any particular alarm, either broad based alarm or
4 specific areas of alarm, as we visit today on May 17, 1992,
5 regarding possible criminal activities?

6 MR. QUATREVAUX: I'm not sure I fully understand
7 your question.

8 MR. WITTGRAF: Is there anything that either of you
9 are alarmed about that is of a criminal or potential or
10 alleged criminal nature?

11 MR. QUATREVAUX: Well, the specific cases --

12 MR. WITTGRAF: No, not specific.

13 MR. QUATREVAUX: In general, no. We have no basis
14 for drawing any conclusions.

15 MR. WITTGRAF: Thank you, Mr. Chairman.

16 CHAIRMAN KIRK: Any further comments or questions?

17 (No response.)

18 CHAIRMAN KIRK: Mr. Holliday, looking at the
19 hotline interviews, correspondence, and OIG initiatives, what
20 is the greatest source right now for investigations?

21 MR. HOLLIDAY: The hotline is not in operation
22 right now. We receive most of our information from the

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 Office of Monitoring, Audit, and Compliance. When a loss of
2 funds case is reported to MAC, we have a memorandum of
3 understanding in which we are also provided that information.

4 MR. QUATREVAUX: That relates to external,
5 obviously.

6 CHAIRMAN KIRK: Any further questions?

7 (No response.)

8 CHAIRMAN KIRK: Thank you, Mr. Holliday. I
9 appreciate you helping me out with moving it along. You're
10 on board next. May I hear a motion to move into Closed
11 Session?

12 M O T I O N

13 MR. WITTGRAF: I so move, Mr. Chairman.

14 CHAIRMAN KIRK: Do I hear a second?

15 MS. PULLEN: Second.

16 CHAIRMAN KIRK: It's been moved by Mr. Wittgraf and
17 seconded by Ms. Pullen to move into Closed Session. All in
18 favor?

19 (Chorus of ayes.)

20 CHAIRMAN KIRK: Opposed?

21 (No response.)

22 (Whereupon, at 5:52 p.m., the meeting adjourned

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 into Closed Session.)

2 * * * * *

3 CHAIRMAN KIRK: I'm going to call this Open Session
4 to order. The 10th agenda item is approval of the minutes of
5 the January 12, 1992, meeting. Why are we doing that?

6 MS. BATIE: You're doing it because you did not
7 take an actual vote for approval of the minutes in the
8 meeting that they were initially presented.

9 CHAIRMAN KIRK: Was this the Chairman's fault?

10 MS. BATIE: Yes.

11 MR. DANA: Oh, it was the Chairman's fault, which
12 one?

13 CHAIRMAN KIRK: I will entertain a motion to
14 approve the minutes of January 12, '92 meeting.

15 M O T I O N

16 MR. WITTGRAF: So moved, Mr. Chairman.

17 MS. WOLBECK: Second.

18 CHAIRMAN KIRK: It's been moved by Mr. Wittgraf,
19 seconded by Ms. Wolbeck. All in favor say aye.

20 (Chorus of ayes.)

21 CHAIRMAN KIRK: Opposed?

22 (No response.)

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

1 CHAIRMAN KIRK: We will now consider a motion to
2 adjourn.

3 M O T I O N

4 MS. WOLBECK: I move.

5 MS. PULLEN: Second.

6 CHAIRMAN KIRK: It's been moved by Ms. Wolbeck,
7 seconded by Ms. Pullen. All in favor say aye.

8 (Chorus of ayes.)

9 CHAIRMAN KIRK: The meeting is adjourned.

10 (Whereupon, at 6:10 p.m., the meeting was
11 adjourned.)

12 * * * * *

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

