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LEGAL SERVICES CORPORATION

OFFICE OF THE INSPECTOR GENERAL  
OVERSIGHT COMMITTEE MEETING

OPEN SESSION

Monday, November 16, 1992

11:10 a.m.

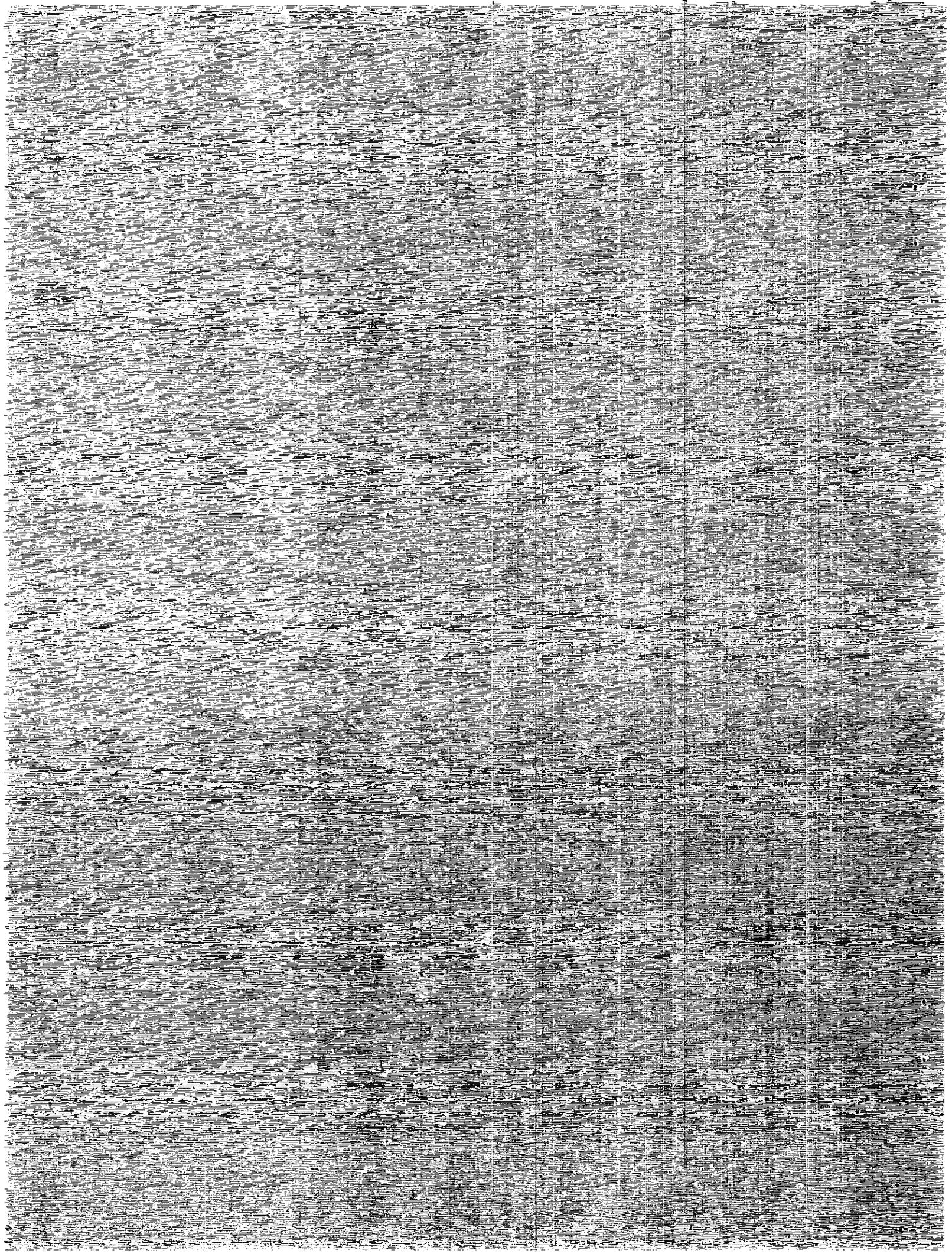
The Legal Services Corporation  
11th Floor Board Room  
750 First Street, N.E.  
Washington, D.C.

**Diversified Reporting Services, Inc.**

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WASHINGTON, D.C. 20006

(202) 296-2929



**BOARD MEMBERS PRESENT:**

J. Blakely Hall, Acting Chairman  
Jo Betts Love  
George Wittgraf  
Jeanine E. Wolbeck

**STAFF PRESENT:**

John P. O'Hara, President  
Emilia DiSanto, Vice President  
Edouard Quatrevaux, Inspector General  
Susan Sparks, Acting Director, General MAC  
David Richardson, Treasurer-Comptroller  
Victor Fortuno, General Counsel

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MOTIONS: 5, 7, 92, 96, 102, 102

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

(11:10 a.m.)

CHAIRMAN HALL: We're going to start this meeting of the Office of the Inspector General's Oversight Committee meeting. I apologize to everyone for starting a little bit late, 10 after 11:00. Today is November the 16th, 1992. We have at the table Jo Betts Love, Jeanine Wolbeck, our president, Jack O'Hara, and myself. George Wittgraf is in the room with us.

The first item is the approval of the agenda, and unless there is objection I want to make a few changes on that order. I understand that under the closed session, item no. 5, it will be deleted because those minutes have already been approved. That will be out.

And then they will line up like this. Item no. 1. Item no. 2 will be next, and then no. 3, and then no 6. will be brought out of the closed session and will be discussed after 3 because it apparently contains nothing that should not be discussed in open session.

After that, item 8, and then I anticipate going into closed session for item no. 7, and then we'll come out and do items no. 4, 8, and 9, and somewhere during the day

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1 we'll have a lunch brought in. I'm not sure where. We'll  
2 kind of play that by ear.

3 M O T I O N

4 CHAIRMAN HALL: And so, unless there is objection,  
5 I will ask for a motion to approve the agenda in that order.

6 MR. WITTGRAF: I so move.

7 CHAIRMAN HALL: Do I hear a second?

8 MS. WOLBECK: Second.

9 CHAIRMAN HALL: All in favor, say aye.

10 (A chorus of ayes.)

11 CHAIRMAN HALL: All opposed, say no.

12 (No response.)

13 CHAIRMAN HALL: The agenda in that order is  
14 approved. The next item will be approval of the minutes from  
15 October the 18th of '92 meeting. Do we need to approve  
16 those?

17 MR. QUATREVAUX: Mr. Chairman.

18 CHAIRMAN HALL: Ed.

19 MR. QUATREVAUX: Without answering your question,  
20 if it's possible, I'd like to make a comment with regard to  
21 those minutes.

22 CHAIRMAN HALL: Sure.

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1 MR. QUATREVAUX: For the record, my name is Ed  
2 Quatrevaux. I'm the inspector general of Legal Services  
3 Corporation.

4 The draft minutes make reference to my report and  
5 meeting with the field program directors and President  
6 O'Hara's request for further information. At the time I  
7 misunderstood his question and would like to correct my  
8 response. For the record, my reply should have been  
9 negative.

10 That is, there were no discussions of LSC or MAC  
11 operations. The questions dealt primarily with OIG  
12 operations. The only references to MAC that I recall  
13 distinguished OIG and MAC in only the broadest terms and did  
14 not involve MAC's operations. There's a reference in the  
15 minutes to that exchange.

16 CHAIRMAN HALL: Where is that, Ed?

17 MR. WITTGRAF: Page 2.

18 CHAIRMAN HALL: Are you suggesting a specific  
19 change to the language in here?

20 MR. WITTGRAF: Mr. Chairman.

21 CHAIRMAN HALL: Mr. Wittgraf.

22 MR. WITTGRAF: I ask unanimous consent that the

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1 second sentence of that paragraph in the middle of the page  
2 simply be stricken from the draft minutes.

3 CHAIRMAN HALL: Okay. So then that will be  
4 stricken. Are there any other changes you wanted, Ed?

5 MR. QUATREVAUX: No, Mr. Chairman.

6 CHAIRMAN HALL: With that deletion, then, I will  
7 call for the approval of the minutes of October the 18th,  
8 1992.

9 M O T I O N

10 MR. WITTGRAF: I move their adoption, Mr. Chairman.

11 CHAIRMAN HALL: Is there a second?

12 (No response.)

13 CHAIRMAN HALL: All in favor, say aye.

14 (A chorus of ayes.)

15 CHAIRMAN HALL: Opposed, nay.

16 (No response.)

17 CHAIRMAN HALL: Those minutes are approved. The  
18 third item on the agenda is consideration of report of Office  
19 of Inspector General's quality assurance program for the  
20 independent audits of grant recipients. I recognize Ed  
21 Quatrevaux.

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

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1 appreciate this opportunity to describe the OIG quality  
2 assurance program to you. I will first define some terms,  
3 then describe our quality assurance program, and conclude by  
4 explaining the advantages of this approach.

5 As you know, LSC is required by its enabling  
6 legislation to either conduct or require from its grantees an  
7 annual financial statement audit. Like most federal  
8 operations, LSC chose the latter in grantee's contract with  
9 an independent public audit firm, or IPA, for an annual  
10 financial statement audit.

11 Audit reports are sent to LSC and frequently  
12 satisfy similar requirements from other funding sources.  
13 Grantees and sub-recipients account for almost 400 audit  
14 reports annually. MAC conducts desk reviews of these audited  
15 financial statements.

16 A desk review, as you saw in the extract from the  
17 PCIE annual report that I mailed to you, a desk review  
18 examines the audit report to assure that financial statements  
19 and opinions are complete and that additional regulatory  
20 requirements have been satisfied. For example, desk reviews  
21 at LSC check for compliance with LSC's audit guide and also  
22 calculate fund balances for management purposes.

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1           Quality assurance audits have not been performed at  
2 LSC. QA audits are a more detailed examination of the IPA's  
3 work, and usually involves a review of the IPA's work papers.  
4 Standards for the maintenance of these backup records are  
5 prescribed by the audit profession.

6           An extract, the extract I just referred to  
7 indicated that some 18 OIGs, office of inspectors general,  
8 conducted desk reviews and/or quality assurance reviews of  
9 about 12,000 audit reports submitted by IPAs in fiscal year  
10 '91.

11           After review, OIGs placed audit reports in one of  
12 three categories. One requires no change or only minor  
13 change. Two requires major change, including correction of  
14 substandard performance, but it does not make the audit  
15 report unusable if it's not corrected. And, finally, reports  
16 that contain significant inadequacies that make the audit  
17 report so pervasively faulty that users can't rely on it.  
18 Such reports are returned to the auditee for correction by  
19 the IPA.

20           The desk reviews, and I refer to this page from  
21 that extract, the desk reviews found that 85 percent of the  
22 audit reports were acceptable with little or no change, that

1 12 percent required major change, and 3 percent had  
2 significant inadequacies that made the audit report  
3 untrustworthy.

4           However, when the more detailed QA reviews were  
5 conducted on a sample of the above, the results were  
6 considerably different. Only 44 percent of the audit reports  
7 were acceptable, and audit reports with significant  
8 inadequacies rose from 3 to 22 percent, the difference  
9 representing deficiencies that could be detected only through  
10 a review of the backup documentation or work papers.

11           Deficient audit reports generally mislead or  
12 present a false picture of the financial posture of the  
13 audited organization and can mask fraud. These 18 OIGs  
14 referred 41 auditors to state boards or the American  
15 Institute of CPAs for disciplinary action such as monetary  
16 fines and/or revocation of the CPA's certificate or license  
17 to practice.

18           Also in fiscal year '91 10 non-federal auditors  
19 were suspended or debarred from conducting audits of federal  
20 funds. Comparable figures are not available for the  
21 Executive Council on Integrity and Efficiency of which LSC  
22 and the other designated federal entity OIGs are members.

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1           One reason is our relative newness, and another is  
2 that many of the recipients of grants and contracts from DFEs  
3 receive their primary funding from other federal  
4 establishments, most notably the Health and Human Services,  
5 Energy, and Defense Departments.

6           In such cases, only one audit is conducted for  
7 federal funds, and responsibility for that audit rests with  
8 the largest funding source or cognizant agency in terms of  
9 the Single Audit Act.

10           With that background, I can turn to describing our  
11 planned QA program. Our process will begin with receipt of  
12 the desk reviews completed by MAC. Various quantitative data  
13 from each audit report will be loaded into a data base and  
14 screened for financial ratios and other relationships that  
15 could be indicative of fraud.

16           A sample will be chosen based on this and other  
17 data. Selected reports will be subjected to a more detailed  
18 analysis, and the IPA will be asked for clarification of  
19 various aspects of the audit report. The majority of the  
20 sample will involve review of the IPA's work papers at the  
21 firm site. IPA's delivering deficient audit services will be  
22 referred for disciplinary action on a case-by-case basis.

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1           There are several possible outcomes from each QA  
2 audit. We hope the audit discloses no fraudulent activity.  
3 The QA audit, however, could result in an investigation  
4 and/or further audit work at the recipient's location.

5           We plan to conduct this QA program because, first  
6 of all, we have a related statutory task that I will mention  
7 shortly. More important, this approach represents the best  
8 method to discharge the OIG mission of fraud minimization  
9 with respect to grant recipients, and is a classic  
10 application of an IG's oversight responsibilities.

11           The IG Act tasks IGs with assuring entity heads and  
12 the Congress that audits conducted by non-federal auditors  
13 meet applicable standards. Quality assurance audits are the  
14 only practical method when a large number of audits are  
15 performed by non-federal auditors. Without them, I cannot  
16 provide you with such assurance.

17           OIGs were created in large part to prevent and  
18 detect fraud, and the scope of this mission includes both LSC  
19 itself and grant recipients. Fraud is prevented by  
20 minimizing opportunities through adequate internal controls  
21 and by deterrent actions.

22           Deterrence occurs principally by creating the

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1 expectation that fraudulent activity will be detected. That  
2 expectation can be enhanced with fraud awareness activities  
3 coupled with the availability of an easily accessible  
4 reporting medium such as our hotline.

5 These enhancements, however, are inadequate in the  
6 absence of either actual detection nor visible and respected  
7 detection efforts. So, the issue we faced was how to provide  
8 that type of oversight with respect to grant recipients.

9 I use three criteria to evaluate oversight  
10 programs. The first is effectiveness. The approach must  
11 provide reasonable assurance of minimizing fraud. Second is  
12 cost. I don't want to spend any more than is necessary to  
13 acquire that assurance. Lastly, I want to minimize  
14 intrusiveness because disruption of normal operations carries  
15 with it the hidden cost of lower productivity.

16 We examined various alternatives, and none were as  
17 effective as the QA program that I described. All were more  
18 expensive because they were additive. That is, any other  
19 method would simply superimpose additional resource  
20 requirements beyond the requirements that we need simply to  
21 satisfy the statutory mission.

22 All of the other approaches were more intrusive

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1 because they involved audit work at the recipient site and,  
2 in essence, what we're doing here is taking maximum advantage  
3 of the existing system of grantee audits and its associated  
4 costs. The quality assurance program will provide incentives  
5 for IPAs to do a thorough job, to do the job that grant  
6 recipients are paying them for. If the IPAs used by LSC  
7 grantees perform at the same level as those employed for  
8 other federal activities, we can expect to see an improvement  
9 in these audits that all of us rely on.

10 Finally, the QA program will serve as an early  
11 warning system and enable us in some cases to minimize the  
12 loss by earlier discovery than would otherwise be the case.  
13 Most important, the QA program will be a highly visible  
14 detection effort and thus help deter fraudulent activity.

15 That concludes my presentation on quality assurance  
16 audits, Mr. Chairman.

17 CHAIRMAN HALL: Thank you. Does anyone have any  
18 questions?

19 MR. WITTGRAF: Mr. Chairman.

20 CHAIRMAN HALL: Mr. Wittgraf. Mr. Quatrevaux, how  
21 much of this effort is possible with the 13-member staff that  
22 presently exists for your office?

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1 MR. QUATREVAUX: We have three types of tasks to  
2 perform: those that are mandatory audits or types of audit  
3 work that are mandatory; we have the work to do in-house here  
4 at LSC; and the third category being the field. Obviously,  
5 mandatory is mandatory and must be performed, and we will  
6 continue to do that.

7 Beyond that, there is a real need for audit work  
8 within the corporation, and how much of that we would do vis-  
9 a-vis quality assurance audits in the field is a question of  
10 which do we do, and in what proportion, and it's very  
11 difficult to answer that question.

12 Obviously, we could take our current audit staff  
13 and execute the QA program. In that event, we would have no  
14 ability to conduct audits inside the corporation, and we  
15 would have no flexibility to do any sort of investigative  
16 support if that were required of the audit staff.

17 There is no simple answer to your question.  
18 Obviously, very little, though. We'd either have to do all  
19 QA and nothing inside or vice versa or some mix thereof.

20 MR. WITTGRAF: Mr. Chairman, may I inquire further?

21 CHAIRMAN HALL: Certainly.

22 MR. WITTGRAF: You referred, Mr. Quatrevaux, to

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1 using a sample or a sample method, a random sample method, I  
2 think, in initiating this effort. With a staff of 13, how  
3 large a sample would that be that you expect?

4 MR. QUATREVAUX: The QA program is based on a  
5 sample of 10 percent.

6 MR. WITTGRAF: And that would be with the existing  
7 staff size?

8 MR. QUATREVAUX: No. No, no. The 10 percent  
9 sample is associated with the requested additional four audit  
10 staff, the increase of four in the audit staff.

11 MR. WITTGRAF: So that would be an 18-member staff  
12 as you'd projected in --

13 MR. QUATREVAUX: That's correct.

14 MR. WITTGRAF: -- the proposed \$1.274 million  
15 budget for the fiscal year which has just begun?

16 MR. QUATREVAUX: That's correct.

17 MR. WITTGRAF: And if the actual budget allocation  
18 for the office was more closely comparable to the current  
19 level of funding, you are not sure if you'd be able to do any  
20 quality assurance audits or reviews?

21 MR. QUATREVAUX: Well, we would so some, Mr.  
22 Wittgraf.

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1 MR. WITTGRAF: And that would be based upon that  
2 kind of mix that you really haven't tried to sort out yet  
3 that you described?

4 MR. QUATREVAUX: That's correct.

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

6 CHAIRMAN HALL: Any others?

7 (No response.)

8 CHAIRMAN HALL: Ed, you mentioned that your quality  
9 assurance program would provide some visibility to this  
10 programs to perhaps deter fraud and things of that nature.

11 MR. QUATREVAUX: Yes, as we see it working. Two  
12 aspects here. First of all, the use of financial analysis  
13 can greatly facilitate a search for fraud. Secondly, just  
14 the knowledge that we have a comprehensive program under way  
15 and some visibility of that program should serve to deter  
16 some fraud at whatever level it is.

17 CHAIRMAN HALL: And you mentioned the 18 IGs that  
18 have a similar program have found a significant amount of  
19 fraud or problems with some of these?

20 MR. QUATREVAUX: Yes, the PCIE report which you  
21 have in addition to describing the quality assurance work  
22 described conviction -- summarized the investigation,

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1 findings from the OIGs as well as the audit finding. Indeed,  
2 I think perhaps our next speakers could speak to that better  
3 than I, but substantial savings.

4 CHAIRMAN HALL: Do any of these other programs that  
5 the other IGs were in have an office such as MAC? And do you  
6 feel that MAC provides any of that needed visibility to deter  
7 that type of fraud or abuse?

8 MR. QUATREVAUX: Well, I think the acting director  
9 of MAC could better speak to that, but my understanding is  
10 that the monitoring visits do not seek to uncover fraud,  
11 that that's not an objective.

12 CHAIRMAN HALL: Susan, do you want to address that?

13 MS. SPARKS: My name is Susan Sparks. I'm acting  
14 director of the Office of Monitoring, Audit, and Compliance.

15 Two things to bring to your attention on that, Mr.  
16 Hall. During monitoring visits, we do review audit work  
17 papers, and we have for the past five or six years made that  
18 a routine part of every monitoring review.

19 While our stated purpose of the fiscal portion of  
20 our monitoring is not to detect fraud, we certainly are alert  
21 to indicators of fraud, but our primary purpose is to work  
22 with the program and to check their systems and to ensure

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1 that they protect our funds.

2 CHAIRMAN HALL: Do you do that on every monitoring  
3 visit?

4 MS. SPARKS: Yes. We do review the work papers.  
5 Also, when we do see problems with the audit reports during  
6 our desk reviews we will follow up with the independent  
7 auditor and work with the independent auditor to correct  
8 those items in the independent audit.

9 CHAIRMAN HALL: Ed, have you looked at their review  
10 of those work papers of any of these recipients?

11 MR. QUATREVAUX: I'm not sure what you mean by  
12 that.

13 CHAIRMAN HALL: Have you looked at MAC's review of  
14 the work papers?

15 MR. QUATREVAUX: We are aware of what AMC does. I  
16 think that's an area that we can explore in the future,  
17 possible tasks that would no longer need to be performed, but  
18 that is something we would have to discuss.

19 CHAIRMAN HALL: It would be an area that MAC would  
20 no longer need to perform to start a quality assurance  
21 program?

22 MR. QUATREVAUX: Possibly. Possibly.

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1 CHAIRMAN HALL: I'm just wondering if some of this  
2 is being done by MAC already.

3 MR. QUATREVAUX: I don't think so.

4 MS. SPARKS: During our review of work papers, and  
5 I certainly can make available to you our manager of review  
6 and analysis who deals with this directly, but we do review  
7 the work papers to ensure that proper testing was done by the  
8 auditor, and that the audit papers are in appropriate shape  
9 that document that the work has been done.

10 Where we have found problems in work papers, we  
11 have worked with the program to encourage them to secure  
12 another auditor. We have asked that bids be placed to change  
13 auditors. And we have gone so far as, several years ago  
14 there was a situation that arose where we asked about 10  
15 programs to change auditors under our grant assurance, which  
16 raised a number of issues with the field as to whether or not  
17 the corporation had that authority. But that's the kind of  
18 work MAC has done in that area.

19 We have detected loss of funds. I hesitate to use  
20 the word "fraud" because there's a certain definition that I  
21 don't understand as well as Ed does. But where there has  
22 been loss of funds or apparent embezzlements we have detected

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1 that through our reviews, and to the extent that Ed will work  
2 with the board to determine those areas that we are not to  
3 look at any more, that -- we'll identify those, but we have  
4 detected fraud through those reviews.

5 CHAIRMAN HALL: So you are basically taking over  
6 that function of MAC? Is that a pretty direct way to say it?

7 MR. QUATREVAUX: Well, my impression of monitoring  
8 visits as a whole is that the activity referred to would  
9 constitute a very small proportion of the effort. That is my  
10 understanding. We have worked -- Karen Voellum has worked  
11 with Susan to develop a process reviewing who does what and  
12 how to best accommodate this. So, I don't think we are  
13 talking about a great deal here.

14 If you'd like my opinion as to whether that  
15 activity is an adequate deterrent to fraud, my opinion is  
16 that it is not because I don't think that's what MAC's  
17 primary objectives are.

18 CHAIRMAN HALL: Sue?

19 MS. SPARKS: Just on the desk reviews and the  
20 quality assurance audit that the IG will be doing, Karen and  
21 I have worked together to distinguish those areas which I  
22 think have been clarified of 6AMC's purpose with the desk

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1 review versus the IG's purpose with the quality assurance  
2 audit.

3 We haven't gotten onto any more detail than that.  
4 I think that's what we're talking about, beginning that  
5 conversation now. During a monitoring visit we will  
6 generally have, prior to this year's budget, two fiscal  
7 people on every monitoring visit, generally. Probably 80  
8 percent of the time we have two people. About half a day  
9 -- it can vary between an hour to a half a day is spent with  
10 the independent auditor during a monitoring visit, and we do  
11 spend an average of about four days on site with the  
12 grantee's fiscal systems.

13 In-house, Mr. Wittgraf, that may be helpful to you,  
14 have three full-time people -- full-time equivalents who do  
15 desk reviews of all grantees. 323 desk reviews are done by  
16 three full-time equivalents in MAC.

17 MR. WITTGRAF: Mr. Chairman.

18 CHAIRMAN HALL: Mr. Wittgraf.

19  
20 MR. WITTGRAF: How does what you are describing  
21 compare with the so-called desk reviews that Mr. Quatrevaux  
22 has described as being the function typically of Offices of

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1 Inspector General? What comparability or what contracts are  
2 there?

3 MS. SPARKS: Prior to the IG coming in, we called  
4 it an audit review checklist. It was about an eight to a  
5 ten-page document that was a fairly comprehensive, in some  
6 minds too comprehensive review of the independent audit.

7 With the IG's assistance, particularly with Karen's  
8 assistance, we have turned that into a desk review checklist.  
9 I think it may streamline our reviews a bit more and be more  
10 focused on the information that in today's terms, according  
11 to OMB circulars and that type of thing, will be a more  
12 efficient use of our time. So, it may actually streamline  
13 our desk reviews, the new desk review checklist.

14 MR. WITTGRAF: So you do desk reviews of all  
15 grantees' audit reports? Mr. Quatrevaux, what, if any, desk  
16 reviews is your office performing now?

17 MR. QUATREVAUX: My office does not perform desk  
18 reviews. You may recall that early in my tenure we were  
19 visited from the auditors of the General Accounting Office.  
20 Some of them had the somewhat reflexive view, I thought, that  
21 MAC should be transferred because of the nature of his job in  
22 into OIG. And I argued strongly against that, as you will

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1 recall.

2 We then moved from MAC as a whole into the question  
3 of audits. There was a strong belief at the General  
4 Accounting Office that the entire audit process should be  
5 associated with OIG. Again, I argued against that. We have  
6 arrived at a process that I think is a reasonable and  
7 intelligent delineation of the duties between OIG and MAC.  
8 That is, MAC's close association with the administration of  
9 the annual audits argues for its continuation, as does its  
10 relationship to evaluation of grantees.

11 The desk review process also satisfies management's  
12 needs for other information and is used to do that in the  
13 process. So, our conclusion was that the smart thing to do  
14 was to leave the desk reviews in the hands of the line  
15 organization and use quality assurance as our oversight  
16 approach and satisfy the requirements without a great deal of  
17 organizational change.

18 MR. WITTGRAF: Well, as I was looking at the so-  
19 called PCIE annual report extract that you shared with us and  
20 to which you referred this morning in your introductory  
21 comments on this subject, it talks about the results of the  
22 desk reviews of the non-federal audits, and for the purposes

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1 of the Legal Services Corporation those desk reviews then are  
2 being done by our Division of Monitoring Audit, and  
3 Compliance.

4 And it is simply in addition to that, when we get  
5 into the quality assurance reviews, or quality control  
6 reviews, QCRs, I guess, as they are referred to in that  
7 abstract, that you are talking about the expansion of the  
8 responsibilities of your office with that, of course, we have  
9 the problem of resources, but in this designated federal  
10 entity the desk reviews, in effect, are done by MAC, and the  
11 quality control reviews will be done by the Office of  
12 Inspector General.

13 MR. QUATREVAUX: That's the agreement that we have  
14 reached in-house, yes.

15 MR. WITTGRAF: And I assume that puts this  
16 designated federal entity in a slightly different posture  
17 than other designated federal entities.

18 MR. QUATREVAUX: It does in that regard. There are  
19 also other aspects that are different and we'll touch on at a  
20 later point.

21 MR. WITTGRAF: We certainly wouldn't want this  
22 entity to be similar to any other in any way. I think I

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1 understand.

2 MR. QUATREVAUX: Little chance of that happening,  
3 Mr. Chairman.

4 MR. WITTGRAF: Thank you.

5 CHAIRMAN HALL: Does anyone else have any questions  
6 (No response.)

7 CHAIRMAN HALL: We are going to go to item 6, which  
8 comes out closed session, briefing on customary practices in  
9 the inspector general community. And, Ed, do you have some  
10 speakers on that?

11 MR. QUATREVAUX: Yes, Mr. Chairman. I will ask  
12 them to come forward now. One is missing. I'm not sure  
13 where. But we are fortunate to have with us today two IGs  
14 who are acknowledged leaders in the IG community as well as  
15 authorities in their respective fields.

16 Mr. David Williams, who is not yet here, who was  
17 here and apparently excused himself, is inspector general of  
18 the Nuclear Regulatory Commission. Prior to his appointment  
19 by President Bush in 1989, Mr. Williams was director of the  
20 Office of Special Investigations of the General Accounting  
21 Office. He has also served on the President's Commission on  
22 Organized Crime and is currently president of the Association

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1 of Federal Investigators.

2 Mr. Hubert Sparks, who is here at the moment, is  
3 inspector general of the Appalachian Regional Commission and  
4 the vice chair of the Executive Council on Integrity and  
5 Efficiency. He is a certified internal auditor and certified  
6 fraud examiner and has held audit management positions in  
7 various federal OIGs for some 29 years.

8 I have relayed to them the concerns expressed in  
9 recent meetings. I have asked them to comment on IG reports  
10 to the entity head, quality assurance audits, and any other  
11 matter related to customary practices in the IG community  
12 that they may feel relevant. I know that you'll have  
13 question for them. And with that introduction, Mr. Chairman,  
14 unless you direct otherwise, I will simply be an observer.

15 CHAIRMAN HALL: Thank you. Mr. Sparks, Mr.  
16 Williams, welcome. I will let you all take it in any order  
17 you wish.

18 MR. SPARKS: We'll just start, sir, in a second  
19 here. We've got a few handouts. We don't have enough for  
20 the overflow crowd. We've got a few extra ones here.

21 MR. WILLIAMS: Mr. Sparks' comments will be more  
22 general, and then we will focus on ours, and I will follow

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1 that. My focus is investigative.

2 MR. SPARKS: We appreciate the opportunity to be  
3 here. We were kind of asked to kind of give some sort of an  
4 overview on how Offices of Inspector Generals have operated  
5 and do operate, including the Presidential inspector  
6 generals, which Dave represents, and the designated inspector  
7 generals, which I and Ed Quatrevaux represent.

8 Our purpose is simply to provide you information on  
9 some of the methodologies and some of the interpretations of  
10 the law that have been made in the past. I think you've  
11 discussed a couple of the issues this morning already. I  
12 think you've probably discussed some of the issues in the  
13 past.

14 I can assure you back in 1978 when the IG Act was  
15 passed many of the questions that you are raising about the  
16 IG's role and mission and independence came up. There is  
17 really not an authoritative body of knowledge that says this  
18 is the way an IG operates. However, for our purpose, and I  
19 recognize you are not under the Office of Management and  
20 Budget, they, in fact, probably have issued most of the  
21 guidance and direction on how IGs ~~shep~~ ~~enate~~ Governmental  
22 Affairs Committee and the House Government Operations

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1 Committees are IG oversight committees, and they haven been  
2 heavily involved in the process. So things I refer to will  
3 probably be things that have been agreed with by OMB or the  
4 committee, since you really do not have anybody that you  
5 report to directly as far as IGO oversight in the executive  
6 branch, as best we can figure out.

7 This is somewhat unique to us, and I don't have any  
8 prepared set of comments. I'd say 59 of the 61 IGs do not  
9 operate in this kind of format. We do much more discussion  
10 informally with agency heads and basically come together as a  
11 group maybe for a budget session or a specific topic. It's  
12 usually a different type of exchange and communication as we  
13 do our work.

14 But, with that, I still want to touch on some of  
15 the issues I think are of interest to you and Dave at the  
16 same time. My background is an auditor, basically. Dave's  
17 is an investigator. So we have both sides of the house kind  
18 of represented.

19 I've given you some handouts basically because I  
20 think without going through them all today they address some  
21 of the issues fairly succinctly that you have raised and that  
22 you are interested in and might provide some information as

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1 you make your decisions and have your deliberations going  
2 down the road with respect to the IG at LSC.

3           The way I usually put it is, the Appalachian  
4 Regional Commission is technically not under OMB, either, but  
5 rather than reinventing the wheel they basically in their  
6 grants accept OMB circulates and follow OMB guidelines,  
7 strictly as a logistical factor so that they don't have to  
8 come up with all kinds of implementation guidelines and  
9 procedures and similarly they accept the IG Act and the OMB  
10 guidance as to the IG Act. We happen to think it's a  
11 relatively simple way to go.

12           These are just our views, although we represent the  
13 PCIE and the ECIE. We're giving you our personal views but  
14 we think they're fairly consistent with how things are done  
15 in the inspector general community and how all the inspector  
16 generals operate or feel.

17           Obviously, there's nuances in how each inspector  
18 general operates and communicates with the head of the  
19 agency, what they believe about release of information or  
20 discussions of findings and the ongoing process and how they  
21 justify their budgets.

22           But I think overall we're pretty much -- because

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1 we've been in effect, most of us, for over 14 years. I was  
2 with the Department of Agriculture and Veterans  
3 Administration for many years in the IG offices. It's really  
4 rather been institutionalized. There are very few questions  
5 that really come up that say why is the IG doing that.

6 Most of those have been answered in one way or  
7 another, and I can touch on the quality assurance issue as we  
8 go through here because that's certainly been discussed in  
9 great depth in the IG community for the past at least 10 or  
10 12 years since the Single Audit Act came out in the early  
11 80s.

12 One of the things that I had noticed that there had  
13 been some discussion and Ed asked to touch on is strictly  
14 the definition of the IG mission and scope of our  
15 responsibilities. And what I have given you on the right  
16 side of your folder as we look at it is probably the most  
17 authoritative document that we have.

18 It just came out last week. It was a joint effort  
19 of the inspectors general and OMB, the oversight staff in  
20 OMB, and it represents implementing guidance for the  
21 Inspector General Act which we think is useful for sitting  
22 heads of agencies, such as yourself, and will be particularly

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1 useful for new heads of agencies as we go through the  
2 transition process.

3 And it basically goes through the law and cites the  
4 law specifically, and, as you know, it is a relatively short  
5 law, cites the law specifically and puts in a little bit of  
6 implementing guidance which is our opinion, OMB's opinion,  
7 and input from agency management. I think each agency was  
8 sent a copy of this draft about a month-and-a-half ago or a  
9 month ago for comment.

10 And they've tried to kind of combine all three  
11 views to get what's viewed as a balanced picture. We have  
12 IGs who think it's too weak. We have agency management who  
13 think it's too strong. But we think it's a fairly balanced  
14 picture of what our responsibilities and what our  
15 relationships with the agencies are. And each question that  
16 you have probably would be addressed in here in a succinct  
17 form.

18 With respect to program operating responsibilities  
19 basically both the original IG Act and the amendments in '88  
20 essentially turned over audit and investigating responsible  
21 to the inspector general. I think the language is program  
22 operating responsibilities remain with the agency.

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1           At the same time the second paragraph, which I've  
2 handed out, an excerpt from the IG Act, clearly states that  
3 the IG is responsible for audits and investigations. So,  
4 program operating responsibility is "something else" and you  
5 can debate the specifics of that terminology for some time.

6           But, in essence, it has been interpreted that  
7 audits and investigations and activities related to audits  
8 and investigations is the purview of the inspector general's  
9 office except if legislation mandates that audits or  
10 investigations be performed by the entity, for example, the  
11 Forest Service of the Department of Agriculture.

12           Their legislation specifically assigns the Forest  
13 Service responsibility for criminal investigations. And they  
14 can do the criminal investigation part. The IG can also do  
15 criminal investigations, but they obviously avoid that for  
16 duplication. But it gives certain agencies in government  
17 specific mandates.

18           Except for that it's fairly well been interpreted  
19 that the IG office has the primary responsibility for audit  
20 and investigation. And I think language and legal  
21 interpretations -- the IG has primary responsibility for  
22 establishing the scope of its work. It does not have

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1 exclusive responsibility.

2 The agency head is involved with recommendations  
3 and that type of thing, but not as ordering what the IG can  
4 or cannot do. And I think the legal term, and you folks are  
5 lawyers, I understand, is, the IG has primary responsibility  
6 for the conduct of its office.

7 One of the other questions came out is, does the  
8 LSC, and I heard someone mentioned it before, a designated  
9 IG, that you're doing things differently. Actually, what I  
10 heard, you were doing things rather like most of us are  
11 doing, and maybe that makes you feel bad, but it sounded like  
12 you were doing them somewhat like the rest of us.

13 Designated IGs have been around for three years.  
14 If you look on the last page of this document you'll see an  
15 awful lot of agencies that are governed by boards, by groups  
16 of directors as opposed to one agency head such as a  
17 Secretary.

18 So, you are certainly not unique, and we run into  
19 some of the issues that you have been discussing quite  
20 regularly, we have run into in the last three years in my own  
21 agency. It's half state funded, half federal funded. That  
22 creates a whole new series of problems in identifying what

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1 authorities the IG has.

2 So, while it may seem you are different, we have  
3 many different agencies in the umbrella under the Designated  
4 Entity Act. Congress intended that most agencies not covered  
5 by Presidential statute, Presidential appointees have offices  
6 of inspectors general. They are recognized, a large variety.  
7 They are still dealing with some of the individual issues  
8 that are coming up, such as you are having right now.

9 Audit methodologies, how we operate, my agency is a  
10 grantee agency, same as yours. We make grants to the 13  
11 Appalachian states to improve the economy of Appalachia. I  
12 operate, generally do grantee and headquarters reviews and  
13 for the grantee reviews, I think, which is then an issue  
14 today that you were talking about, I have four options.

15 I can go out and audit the grant myself, the  
16 individual grantee. I can audit our project coordinators,  
17 which are probably somewhat similar to your monitors. And I  
18 can audit their effectiveness, and I can go out to grantees  
19 in order to test their effectiveness and, quite frankly, most  
20 inspectors generals' offices will say that if you're going to  
21 audit the effectiveness of the federal inspector, you've  
22 really got to go out to the basic grantee to see how

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1 effective it was.

2 We can do performance audits. That's a very  
3 important aspect of IG operations. When the IG -- I had  
4 mentioned fraud. The IG Act basically was set up to look for  
5 fraud, waste, and abuse and economy and efficiency of  
6 government operations. It's just about an equal division  
7 between the fraud aspect and looking for ineffectiveness and  
8 inefficiency in government operations.

9 And performance audits basically are designed and  
10 intended to see if the program is working. They, again, can  
11 be performed on an individual grant level, or for  
12 effectiveness and efficiency's sake a functional area across  
13 the board at several grantees. I guess, in your case, are  
14 the clients being serviced timely would be a topic and that  
15 could be looked at at several grantees.

16 That's a very important aspect of OIG operations,  
17 and I think both President-Elect Clinton and Candidate Perot  
18 had emphasized fraud, waste, and abuse in government, and  
19 waste generally is where the dollars are. Fraud catches the  
20 headlines and is a serious problem which we all get in  
21 trouble for if it's not caught, but the large dollars usually  
22 comes from waste, and I'll mention that on the quality

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1 assurance project that Ed was talking about.

2 The fourth aspect is cognizant responsibilities,  
3 and I think this is what Ed Quatrevaux was talking about. He  
4 had mentioned 18 agencies that are involved in what I call  
5 cognizants, which basically is the audit agency within your  
6 department identified by OMB as a cognizant agency.

7 And basically, they identify the largest federal  
8 agency's grant programs, and the only reason Ed said 18 is,  
9 that's the federal agencies making the bulk of federal  
10 grants, HHS being the largest, Department of Education and  
11 HUD.

12 OMB officially assigns the audit agency of those  
13 departments as cognizants. The second category which gets  
14 into my agency and your agency is those agencies that have  
15 not been designated by OMB because of their size. The agency  
16 that gives the largest amount of funds to the grantee has  
17 what is called general oversight.

18 That means that the audit branch in that department  
19 provides technical assistance to the grantees if they have a  
20 problem with accounting and that type of activity or auditing  
21 or the CPA firms that they hire, performs desk reviews and  
22 quality assurance reviews, and generally oversees the conduct

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1 of the independent auditors. All probably, oh, 50 of the 60  
2 IGs are involved in grant programs. 18 have been formally  
3 designated as cognizant. There are many of us that have  
4 general oversight responsibilities.

5 Under general oversight responsibilities, again  
6 referring to OMB, implementation guideline for a state  
7 agency, universities, and non-profit institutions. It's  
8 Circular A-133 but it comes from the Budget and Accounting  
9 Act of 1950 that requires annual audits of grantees.  
10 Basically, under that, you have the option to do desk reviews  
11 and quality assurance reviews.

12 Now, as I understood from what Mr. Quatrevaux said  
13 there's been an internal agreement that the operating folks  
14 are retaining the desk review function and he would like to  
15 pick up the quality assurance function, which has not been  
16 done.

17 In the IG community, the audit branch of the IG  
18 office has both responsibilities. I am not suggesting to  
19 change that here because some of our smaller agencies are  
20 somewhat unique in what we want to do, but just as a matter  
21 of record that would probably be considered, if you asked the  
22 General Accounting Office, that both desk reviews and quality

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1 assurance reviews are "an audit function." It's related to  
2 audits, back to the primary mission of the inspector general.  
3 It is not considered an operating function.

4 The reason why the IG Act was established first in  
5 1978, it actually took from 1962 with Billy Sol Estes in  
6 Agriculture, where I started, was basically to establish  
7 increased independence within each agency. Secondly, it was  
8 to assure that auditors and investigators of the various  
9 small units with a large departments talked to each other.

10 CHAIRMAN HALL: Mr. Wittgraf.

11 MR. WITTGRAF: Let me interrupt you just a second.

12 MR. SPARKS: Sure.

13 MR. WITTGRAF: Excuse me for the interruption, but  
14 I'm afraid I'll forget if I don't bring it up now. Do you  
15 think, then, that talking about so-called desk reviews, which  
16 I assume -- I'm not using the proper terminology, but become  
17 something of a term of art in the inspector general  
18 community, the non-federal audit reviews, I'll call them desk  
19 reviews, but the agencies that you're describing -- let's  
20 talk about the designated federal entities for a moment, that  
21 they probably have both desk reviews done by, I'll say their  
22 program auditors as well as having desk reviews done by their

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1   OIG audit staff. Do you think that in most of these  
2   designated federal entities that there is that parallel  
3   structure?

4           MS. SPARKS: No, I think they are all done by the  
5   IG. Action, I think, might be the one I'm familiar with in  
6   most IG offices, not just the designated. In the designated  
7   we probably have about 7 of the 33 that are grant-making  
8   agencies, such as ARC, National Science Foundation, and  
9   Action.

10           And in those entities, including mine, the audit  
11   office does both the desk reviews and the quality assurance  
12   reviews, and that's basically how it's established in all of  
13   the implementing guidance that has been written by OMB to  
14   satisfy both the Single Audit Act, which is state and local  
15   governments, and the Budget and Accounting Act of 1950, which  
16   is universities and non-profits.

17           It's just been interpreted that the independence  
18   issue, not the qualifications of the folks in the monitoring  
19   units or the internal review staffs, it's been determined  
20   that the reason for the IG existence is to assure  
21   independence of audit investigative-related work.

22           And we get into an awful lot of controversy when we

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1 talk about this because people feel you're saying, well, you  
2 know, you're talking about my integrity. We're not. We're  
3 talking about the IG Act for audit and investigation  
4 activities was intended to put more arm's length, not totally  
5 independence, because we report to the head of the agency,  
6 but more arm's length and a program official who has a  
7 different reporting line and may have more of a conflict of  
8 interest because sometimes they are involved with grantees on  
9 a more daily basis. That's the rationale for it.

10 I honestly like the explanation that I had heard  
11 because of the workload factor that I think, you know, gee, a  
12 desk review should be with the OIG. I don't think there  
13 would be much controversy, though, quite frankly, in the type  
14 of explanation that we heard. I happen to believe from the  
15 audit side that the quality assurance reviews are better,  
16 give you better results.

17 A desk review, basically, if you asked the major  
18 inspectors generals, HHS does about 9,000 of these a year.  
19 They would much rather do quality assurance review. They are  
20 mandated by OMB to do a desk review of each of those 9,000.  
21 I think it takes probably 50 people a year.

22 They would like, if you asked them, to be able to

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1 switch the ratio and do less desk reviews and more quality  
2 assurance reviews, for a very simple reason. A desk review,  
3 you get a final report. It gives you no idea whether they  
4 knew what they were doing how many cases they really looked  
5 at, whether they knew the type of information they were  
6 looking for. Ed was talking about fraud.

7 I think again the key is, did the independent  
8 accountant know what they were doing, and I get back into the  
9 waste issue. If a desk review -- if an audit comes in and  
10 meet the what we call yellow book General Accounting Office  
11 government audit standards, which require certain things to  
12 be structured in a certain way, you will pass a desk review.  
13 It is basically a checklist.

14 The only way you really find out if they looked at  
15 the key issues, if they followed up on items that they may  
16 have written down as problems is to go out in the field, so I  
17 think that's a more valuable review. The extent and how much  
18 you can do within resources, obviously, is for you folks to  
19 decide.

20 Inspector generals find the quality assurance  
21 reviews, and as Ed gave the statistics, much more beneficial  
22 in identifying problems. Desk reviews identify very few

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1 problems. I'm sure you are using independent auditors that  
2 have done audits for a long time.

3 They are probably well aware, although you're not  
4 under OMB, they probably do audits for state and local and  
5 other non-profits that are, and they are well aware of what  
6 they need to put in an audit report and the structure and  
7 format that is going to pass a desk review. But you just  
8 don't know what they really did or what the experiences of  
9 the folks on the job were and that type of thing.

10 So, we're a proponent of quality assurance review  
11 without getting into where it should be. I'm just saying  
12 that it is an IG function, has always been an IG function  
13 since it came out, and I think most inspectors general and  
14 the General Accounting Office and the Congressional  
15 committees would believe that it is appropriately an IG  
16 function.

17 Now, it's a unique situation in LSC, unlike mine.  
18 I do very few quality assurance reviews, simply because most  
19 of ARC grants are to communities that also get large agency  
20 grants, highway money from transportation, education money  
21 for literacy, from Department of Education. So, we have  
22 those federal IG offices doing quality assurance reviews of

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1 the work done by that CPA, because when a CPA goes out where  
2 there's more than one federal grant they are required to look  
3 at all of them.

4 So, I'm getting my systems looked at and my  
5 controls looked at and my compliance looked at by other  
6 entities. When you're like Action, maybe, or Legal Service,  
7 or maybe Corporation for Public Broadcasting, and I'm just  
8 talking off the top of my head, where you're the only federal  
9 grantee, you have no one else to look at so your risk is  
10 higher. In my case I feel somewhat comfortable and reduce  
11 the numbers and I put my emphasis on performance, are we  
12 improving Appalachia, for example.

13 And I think it's very hard to compare IGs' apples  
14 and oranges by dollars and numbers of staff because of that.  
15 My budget might be passed through to Transportation, which  
16 reduces my need for staff. If it's not passed through like  
17 LSC you have another level of audit need. So I think that  
18 all has to be factored into the equation which you are  
19 considering. Certainly some basic numbers as to how we do  
20 things or what we are funded at provide a starting point.

21 So, we support quality assurance reviews, period,  
22 and we happen to think the IG is the right place to have

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1 them. We'll leave that. We're all under constraints to mix  
2 and match as best we can the different types of audits that  
3 we have to do, and we have to establish within our own agency  
4 priorities for what we would do within the funding levels  
5 that we have. I think we're all on the same level.

6 Just asked to comment on budgetary and line item  
7 activities. Some of our designated IGs have a line item  
8 which basically, and I'm not a budget expert, but as I  
9 understand it, that means we support our budget through the  
10 agency and to the Congressional committees ourselves as  
11 opposed to being lumped in.

12 The sense of having a line item sometimes we feel  
13 it is more protection. Once we get our budget it's in place  
14 and we have that amount of money for the rest of the year.

15 I do not have a line item, and I do not have any  
16 problems with the head of my agency coming after the start of  
17 the year and transferring funds out or asking to transfer  
18 funds out, but the line item gives somewhat more protection.  
19 It also gives the IG a responsibility to support his budget  
20 unilaterally and independently with the committees.

21 Method of communicating and discussions such as  
22 this, I really don't have a feel for it. It's something new.

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1 I guess both Dave and I would say it's a somewhat different  
2 way to approach things. We're used to environments where  
3 even to the head of the agency we have frank and candid  
4 discussions before we get to the final product or final  
5 decision.

6 And we think that's a good way to go, not being  
7 against certainly the Sunshine Act, but I think when you're  
8 dealing with audits and investigations, there's a human  
9 tendency to be somewhat less candid if everything has to be  
10 on the public record at all times.

11 I like to think of it as the FOIA exemption of  
12 predecisional. We do a lot of predecisional meetings and  
13 discussions about audits and investigations which become  
14 public record when we get to issuing reports but not really  
15 before that. I think Dave would agree with me this is a  
16 unique situation as to how to present information.

17 One of the things I know you folks are somewhat  
18 interested in is, let me turn it over to Dave a little bit  
19 about briefing and handling of audit and investigation  
20 matters, particularly investigation matters, and anything  
21 else that I may have gone over my allotted time on.

22 CHAIRMAN HALL: Mr. Williams.

1           MR. WILLIAMS: Thank you. I'm the first inspector  
2 general of the Nuclear Regulatory Commission, and we were  
3 created at the same time that your inspector general was  
4 created. And I sympathize with your search for the proper  
5 relationship with the inspector general. It's very unique  
6 and somewhat odd with regard to the manner in which you  
7 relate and supervise the activities of the office.

8           The Act created the position to be unusually  
9 independent, with the inspector general generally reporting  
10 on administrative matters to you, but with little operational  
11 oversight by you, which is admittedly an uncomfortable  
12 difficult situation for a group overseeing the operation of  
13 an organization.

14           The IG charter basically comes down to three  
15 things. The IG is to conduct audits of efficiency and  
16 effectiveness of programs; investigations of waste, fraud,  
17 and abuse and other criminal matters of people; and the third  
18 is to comment on existing and proposed legislative matters  
19 and regulatory matters involving policies of programs of  
20 people and policy.

21           A great deal of discretion was given to the  
22 independence of the inspector general in order to avoid the

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1 kind of influence that led to the scandals that brought about  
2 the Inspector General Act. For instance, the inspector  
3 generals may not be prevented by their supervisors from  
4 beginning or conducting work or issuing reports at the  
5 conclusion of the work.

6 They literally have access to every single document  
7 in the agency. Any failures to gain access are to be  
8 reported to Congress, and the threshold for gaining such  
9 access isn't even mere suspicion. It may be simply to  
10 understand and to gain knowledge of the organization, another  
11 very odd feeling that agencies must have that were created as  
12 a result of this that internally.

13 Externally, the IGs were given independent subpoena  
14 authority, a very powerful and unusual tool for an  
15 individual. Externally, that's to be applied to contractors,  
16 vendors, and entitlement recipients.

17 With regard to the access to the people of the  
18 agency and to external people, the boilerplate magic words  
19 with regard to agencies advising their people they should be  
20 advised to cooperate fully and answer honestly. There's a  
21 limit to that and a trap if that's overstated, because  
22 individuals are, of course, as you very well know, are

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1 advised of their rights when those are appropriate.

2           And nothing that you say should be interpreted to  
3 be an order for someone to waive those rights. But just  
4 short of that, full cooperation and honest answers are  
5 generally the instructions given by an agency to its people  
6 when access is sought by the agency.

7           As I said, the agency oversight of the IG is to be  
8 administrative and general in nature. Very little  
9 operational oversight is appropriate from my view and from  
10 the instances that I have gained, and I know what an odd  
11 feeling that is. When there's an operational failure in your  
12 mind, referrals are typically made to either the FBI for  
13 criminal kinds of misconduct or to the President's Council on  
14 Integrity and Efficiency and to the EICI for matters that are  
15 non-criminal.

16           Oversight of the operations are normally limited to  
17 efficiency kinds of questions rather than to the  
18 effectiveness of a single investigation in particular.  
19 That's fraught with problems and risks when those kinds of  
20 oversight questions arise.

21           Audits and investigations are very different from  
22 one another. Audits operate in a very open manner, where

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1 there are no surprises for anyone involved. At the end of  
2 those, those are published, as you know.

3 Investigations are almost completely the opposite.  
4 They are a closed, confidential process. The investigations  
5 are seldom and often times never published within an agency.  
6 They are very easily compromised, and secrecy is a very  
7 important component. There are instances in which compromise  
8 can provide physical dangers for the investigators involved.

9 As a result of that, there are very narrow, strict  
10 rules for disclosure of open investigative matters, and it's  
11 normally guided by what I think we all understand to be a  
12 need to know kind of principle.

13 There's a second, in addition to security issues  
14 connected with investigations, there's a second issue that's  
15 very important, I think, for you. There's the principle of  
16 keeping investigative challenges and adjudicatory channels  
17 separate from one another. At the conclusion of an  
18 investigation it often becomes the responsibility of senior  
19 managers and eventually your responsibility to examine the  
20 investigative findings in an adjudicatory role.

21 It's questionable as to whether you are able to do  
22 that objectively if you've been exposed to raw allegations

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1 and unsubstantiated charges that have fallen by the wayside  
2 during the investigative process. A judge needs to be  
3 shielded from those kinds of pieces of information. That's  
4 the second reason why oversight by you of specific  
5 information inside an investigation needs to be very limited.

6           Within my agency and the others that I'm familiar  
7 with briefings are commonly limited to closed investigations  
8 at the moment of closing where it's provided to you and you  
9 are briefed, significant, and I will explain this further,  
10 significant case openings and investigations that undergo a  
11 significant change from the time they were opened.

12           The normal threshold for significance in my mind is  
13 where there's the danger that there's going to be news  
14 coverage or Congressional oversight with regard to a matter.  
15 I think you do need to be advised of that.

16           The second instance in which you need to be advised  
17 is where there's the possibility that an individual needs to  
18 be placed on administrative leave during the investigation.  
19 You must at that point be made aware of the current status of  
20 the investigation.

21           I was asked about the forum of the entire board  
22 overseeing and discussing the investigative matters. That's

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1 a difficult one. I think it is exposing the board to matters  
2 in which there is risk. I think that if you discuss open and  
3 ongoing investigation there is the risk that that  
4 investigation may be compromised.

5 I think that if someone comes in after that, a  
6 Congressional committee or typically a GAO investigative  
7 body, the chances of getting to the bottom of the compromised  
8 investigation are probably quite small. The focus probably  
9 instead will be on the process of the board's oversight.

10 I think that you ought to give consideration to  
11 having a single individual become very familiar with the  
12 intricacies of each investigation, and having the board, if  
13 possible, limit its overview to closed investigations.  
14 That's not always practical or possible, as I said, but I  
15 think that's a target that might be good to aim for.

16 CHAIRMAN HALL: Mr. Williams, by single individual  
17 you mean someone outside the OIG's office, someone on the  
18 board?

19 MR. WILLIAMS: Yes, sir.

20 CHAIRMAN HALL: One person?

21 MR. WILLIAMS: Yes, I do mean that, the chairman,  
22 or someone.

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1 CHAIRMAN HALL: The president?

2 MR. WILLIAMS: The president, I think, might be a  
3 problem. The president serves as the kind of executive  
4 director for the board, if I understand? He's the day-to-day  
5 person?

6 CHAIRMAN HALL: Chief, yes, CO, chief operating  
7 officer. Ed, do you want to come forward?

8 MR. WILLIAMS: In my agency there is an executive  
9 director. I do not report to that individual. I report to  
10 the chairman of the board instead, and it would be, in my  
11 mind, a conflict of interest if I reported to our executive  
12 director, and those are his feelings as well.

13 CHAIRMAN HALL: Ed, before you comment, let me just  
14 say that Ed makes his reports to us, but Mr. Williams, are  
15 you contemplating a situation where that report would be a  
16 more detailed report to one particular individual, even  
17 during ongoing investigations?

18 MR. WILLIAMS: I'm sorry. I didn't mean to talk  
19 over you. In the instances where there's the need and a  
20 justification for discussing an opening investigation I think  
21 it would be of value to limit that discussion to one person  
22 upon whom the board depends, because it's possible to

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1 sensitize a single individual to all the traps and the  
2 problems associated with having that kind of information.

3 MR. SPARKS: One of the things, just to follow up  
4 on your question, that we are somewhat sensitive about, and,  
5 again, it's the IG viewpoint, and it's almost the Act, which  
6 basically says the inspector general shall keep the entity  
7 head informed, we view particularly serious issues that the  
8 board is the entity head in this case.

9 And I think what Dave is saying, though, and I  
10 think is some understanding within our oversight agencies,  
11 that sometimes it's rather difficult to deal with a full  
12 board, one that's too sensitive. The issue could get out  
13 easier. But I think what we really mean is a board member as  
14 opposed to the chief operating official.

15 Now, routine and normal things that are not  
16 considered really serious, maybe, but that would be an IG  
17 determination. The Act is very clear that we should keep the  
18 entity head fully informed, and it's not a delegable  
19 authority. The IG, if he feels it is particularly serious,  
20 would probably want to hold to that. If it's a routine  
21 personnel case, somebody did something on a travel voucher  
22 for \$50, that's a different type of a situation.

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1           MR. WILLIAMS: I think, if I may add to that, I  
2 think also the idea of keeping minutes of those kinds of  
3 meetings provides a lot of difficulties, and if you want the  
4 conversation to be as frank and open and detailed as you  
5 need, you wouldn't want to have to guard every single word  
6 that you say and have it for the record. I think you'd like  
7 it in as relaxed and confidential setting as is possible for  
8 you.

9           CHAIRMAN HALL: Mr. Wittgraf.

10          MR. WITTGRAF: Thank you, Mr. Chairman. I think  
11 generally our board's view is consistent with the one that  
12 you gentlemen have just described. One I'll say need for  
13 information I think the board has felt as we have visited  
14 routinely.

15                 And we will, for example, in this calendar year,  
16 have met as a board 10 times together, and on each of those  
17 occasions, both in open and closed session with the inspector  
18 general, is on the one hand to have a sense of simply what  
19 he's doing so that when we get to budgetary matters we have  
20 some basis for understanding that it is that he and his staff  
21 members do, and, second, to have a general understanding of  
22 the nature of particularly the investigative matters.

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1           And I think that's what we're talking about here  
2 particularly so that we as a board as we're looking to  
3 regulations or to the emphasis that our president and his  
4 staff should have in their activities, to know if there's  
5 something we should be doing in terms of technical  
6 assistance, training, or whatever.

7           So that I think generally as a board we have tried  
8 not to get into the particulars of matters being  
9 investigated, but only to have a sense of how demanding the  
10 investigative task is, by numbers or otherwise, and what the  
11 nature of the investigations are so that we can respond as a  
12 board and a staff at least in a general way.

13           Having made that comment, if there's any guidance  
14 you would have for us as a committee and ultimately as a  
15 board, or any guidance for our inspector general and his  
16 staff in helping us be informed in a general way, we'd be  
17 happy to have it.

18           MR. WILLIAMS: I like the way you just laid that  
19 out. I think that's a nice approach. The way I tried to  
20 describe it earlier was that I think questions of general  
21 efficiency are fair game, and I would assume that the  
22 inspector general wants you to have that, and wants you to be

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1 as sensitive as possible so that you can better understand  
2 the kinds of problems and challenges that face the office.

3 It's specific effectiveness within an investigation  
4 that could lead to either problems of perception or real  
5 problems of undue influence and interference. Sometimes the  
6 mere posing of a question suggests the manner in which you'd  
7 like something conducted.

8 And I have no reason to believe there has ever been  
9 a problem, but the mere existence of any kind of a system  
10 that would examine each investigation and decisions made  
11 within each investigation, I think, would cause you, and I  
12 don't believe you're there, would cause you to enter into a  
13 very risky, difficult area, something that you certainly  
14 don't deserve. It's just too dangerous.

15 MR. WITTGRAF: Mr. Chairman.

16 CHAIRMAN HALL: Mr. Wittgraf.

17 MR. WITTGRAF: I think we're sensitive to the  
18 concern you have just described. We have had the occasion  
19 that you perhaps have not yet, fortunately for you and your  
20 commission at the NRC, of a disgruntled former employee  
21 taking to the inspector general complaints and allegations,  
22 as certainly is that employee's right, while simultaneously

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1 taking those complaints and allegations to committees of  
2 Congress, both those routinely charged with oversight and  
3 others, as well as to the news media and as well as to the  
4 incumbent Administration.

5 And I think, for us as board members, particularly  
6 those of us who happen to stand accused individually, and for  
7 the inspector general and his staff, it was an awkward -- has  
8 been an awkward situation as to what should and shouldn't be  
9 shared with one another.

10 If either of you had that experience, and, as I  
11 say, hopefully you haven't yet at the NRC in the last three  
12 or four years, or if Mr. Sparks has in his longer period of  
13 service at different agencies, we'd be happy to have any  
14 guidance there.

15 I'd like to think that this was, if not unique, at  
16 least highly unusual, and we're pretty well over the hurdle,  
17 I think, as far as our board and our inspector general are  
18 concerned. But it was something that he and we had to deal  
19 with early on, particularly during this past calendar year.  
20 And that, as I say, hopefully, was unique. But generally, we  
21 wanted to know a little about the specifics.

22 We got maybe just a little testy in this one

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1 instance because we weren't sure what all was being put in  
2 the public domain at the same time that the inspector general  
3 was undertaking his investigation into to what extent what  
4 was in the public domain could or should overlap with what  
5 was the subject of his investigation. Have either of you had  
6 that experience?

7 MS. SPARKS: You probably have. I turn them over  
8 to the investigators.

9 MR. WILLIAMS: Yes. That's actually quite common,  
10 and it's maddening, and all the rules that I gave you, you  
11 need to keep in perspective and to do as often as you are  
12 able.

13 On those it's just -- it's impossible. You must be  
14 briefed and kept up to speed. It's a very -- often times, as  
15 you're conducting an examination of the allegations and  
16 you're trying to respond to external bodies, the road narrows  
17 to a very treacherous width, and you must know everything if  
18 you are to go forward effectively.

19 And I sympathize. We have been in some. I know  
20 that yours was quite high level. I've been involved in one  
21 that was at a very high level. And those are maddening. And  
22 all the choices are bad. And you must have your eyes open in

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1 order to negotiate your way in those matters.

2 MR. WITTGRAF: The position taken by our inspector  
3 general and certainly the more cautious and, I guess, more  
4 prudent position was that notwithstanding revelations in the  
5 public domain, not withstanding litigation, necessarily  
6 part of the public record as well, that he and his staff were  
7 not able to share what investigative information they had  
8 with us. And that, particularly, gets to be frustrating or  
9 maddening, as you say, but, I suppose, is the more prudent  
10 way to approach it.

11 MR. WILLIAMS: Yes, I agree. When you are under  
12 that amount of pressure, you can make some mistakes that will  
13 supercharge the event, and if there's the feeling that  
14 there's a coverup, or that information is being leaked, it  
15 takes an event which is large and makes it enormous. Had he  
16 not sheltered you from that, you undoubtedly would have been  
17 featured on the Federal Page of the Washington Post a few  
18 days in a row.

19 MR. WITTGRAF: I don't know whether this particular  
20 situation has passed us or not. Certainly it has not from a  
21 litigation standpoint.

22 MR. WILLIAMS: Yes, they last for whatever.

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1 MR. WITTGRAF: Right, but it is over from the  
2 standpoint of our inspector general, and, I guess, to his  
3 credit he didn't say much of anything to us until after it  
4 was over.

5 MR. WILLIAMS: I think he probably successfully  
6 kept it in perspective and did a nice conservative approach  
7 to it. I have some familiarity with that, and I think  
8 conservatism and caution saves the day and keeps it from  
9 becoming, as I said, a supercharged event, which -- it  
10 enlarges to the point that it's over twice the size it was  
11 when it first took on its dimensions.

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

13 CHAIRMAN HALL: Mr. Quatrevaux, I know you had a  
14 comment about 10 minutes ago. Do you still want to say  
15 something?

16 MR. QUATREVAUX: I don't think it's still on the  
17 floor. Thank you.

18 MR. SPARKS: In commenting on that point that Dave  
19 just made, I think one of the most maddening things for heads  
20 of agency in the Inspector General Act, and we try to cover  
21 it on page 4 of the document I gave you, is what is general  
22 supervision as provided by the head of the entity.

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1           And when my new head of the agency came on board  
2 when I came on board in 1989 that is a very difficult thing  
3 to explain, and if you really read the Inspector General Act,  
4 including this guidance, it's almost a negative assessment  
5 because as you read it you keep saying, I can't do that, I  
6 can't do that, I can't do that, I can't interfere with audits  
7 and investigations, which transposes you can't interfere with  
8 training, and staff selection, and travel.

9           And it really comes down to things like rating the  
10 inspector general and possibly on this case try to get the  
11 report to me as fast as possible so you don't have to be  
12 involved.

13           When I see general supervision, it's kind of the  
14 efficiency of the IG office, and as opposed to trying to get  
15 all the details which might put yourself in a bad position,  
16 they stress, as fast as you can get me that report, I will  
17 then have the details.

18           I can assure you right now that the state IG is not  
19 talking to anybody about this passport review, but he's  
20 heavily involved, and he's probably best not talking to  
21 anybody because he's also in a no win situation, and probably  
22 he's also in contempt.

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1           So, general supervision we recognize is about  
2 -- and I don't now any other way except to put the negatives,  
3 what the head of the agency can't interfere, and it doesn't  
4 leave much when you really read the IG Act.

5           Two quick points on quality assurances, which I  
6 forgot to mention. The 18 entities that perform them, and  
7 admittedly, some of them are somewhat larger, but the review  
8 and the quality assurance review are a sample of work papers.

9           It's like an audit sample. You may look at 200  
10 cases. Whether it's a 2 million voucher or 2,000 it doesn't  
11 change much. And most of those quality assurance reviews are  
12 not a couple of hours looking at work papers. It's usually a  
13 week or two weeks of intense review and going back to see  
14 what was really done.

15           And one of the other purposes for having them in  
16 the IG Act is, under the controller general standards,  
17 generally accepted standards for government audits, "IG  
18 staff" is required to have so many training in accounting and  
19 the expertise is supposed to to be there. This again is not  
20 a knock at the folks doing the work.

21           It's just a standard that's been set up just like  
22 accountants are 511s in government service. Performance

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1 auditors may be management analysts, but it's a standard when  
2 you get into financial reviews and information that's been  
3 established for us, and we really, quite frankly, don't have  
4 a choice on that.

5 Two last issues. I gave you a copy of an executive  
6 order which came out in May and that establishes  
7 -- both reestablishes the President's Council on Integrity  
8 and Efficiency and establishes the Executive Council on  
9 Integrity and Efficiency which, basically, both entities are  
10 established by the President.

11 And I understand they will stay in effect. As far  
12 as I understand, there is not going to be a change in the  
13 executive order with the new Administration. I can't  
14 guarantee that, but it basically is to enhance the  
15 coordination and cooperation between the inspectors general  
16 to accomplish our mission.

17 And, in a sense, while a lot our agencies as  
18 designated entities are like yourself, are not technically  
19 under OMB, or are not under OMB, OMB was assigned as chairman  
20 in both those councils by the President. Therefore, they are  
21 in an obvious advisory role to us. While they don't have a  
22 legal status, pronouncements they make, since the document we

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1 gave you we think are pretty good indicators of where the  
2 executive branch, which I understand we are all a part of, is  
3 going and would like us to go.

4 And, therefore I strongly recommend, rather than  
5 reinvesting the wheel, that's the type information you could  
6 rely on to facilitate your understanding of the inspectors  
7 general office.

8 The last thing, in most of our agencies, the  
9 entities have published regulations or made them part of  
10 their manuals or handbooks, and I don't know what LSC has,  
11 but either way they have published to the staff and to the  
12 grantees information about offices of inspectors general and  
13 grantees and staff responsibilities with respect to the  
14 office of inspector general. As opposed to just the  
15 Inspector General Act, they publish something.

16 I have given you the ARC code in the Appalachian  
17 Regional Commission, what they inserted at the beginning of  
18 the process. It's very short. Some are very detailed. Some  
19 go to a lot of processes about audits and investigations.  
20 But I think the key issues are the independence, the access  
21 to records, and the expectation of full cooperation of all  
22 the employees that Dave talked about, and I think that's a

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1 good document to come from management to facilitate what the  
2 inspector general is doing.

3 And, with that, unless you folks have some  
4 questions, I think we've exhausted our welcome, and certainly  
5 appreciate the opportunity to talk with you folks.

6 CHAIRMAN HALL: Mr. Wittgraf.

7 MR. WITTGRAF: One general question. We've talked  
8 a lot about kind of the technical functioning and trying to  
9 do what we're supposed to do. Can either of you give us a  
10 sense of what kinds of gains come to an agency or, in this  
11 case, a designated federal entity, from this function?

12 What can we hope to realize in the way of better  
13 functioning, designated federal entity, a Legal Services  
14 Corporation providing grants to non-profit entities involved  
15 in providing civil legal services to the poor across the  
16 country? What can we get out of this?

17 MR. WILLIAMS: You have more experience, Mr.  
18 Sparks. I thought you'd answer that.

19 MR. SPARKS: Well, I will. I think the value added  
20 role for the agency is that it buys you credibility, which is  
21 a very important currency in this city and allows you to  
22 maintain your resources or even to increase the resources

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1 that come to you.

2 It assures that the business that is going on here  
3 is carried on with integrity. Where it's not there's a tough  
4 cop on the beat that is going to assure Congress that he's  
5 going to identify the areas that need to be improved and  
6 create a path for restoration of an operation that's free of  
7 waste and fraud and abuse.

8 You get to do it yourself instead of have it done  
9 to you in most instances and that saves you from enormous  
10 preoccupations, and you're familiar, as you said, at least  
11 from the one instance, of the chaos that descends on an  
12 agency when outsiders with no learning curve come in and have  
13 to begin from scratch each time to executive and conduct a  
14 look at the agency's operations.

15 It also is a good advisory for you. I think it  
16 helps you steer when you have someone that isn't part of the  
17 program that's providing you with his best assessment as to  
18 how the operation is being conducted. I think that's the  
19 value added role that comes to me.

20 MS. SPARKS: Just to follow up what Dave said, I  
21 generally include my friends from the General Accounting  
22 Office. I think Dave had some experience with it also as the

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1 first chief investigator in the General Accounting Office,  
2 but I think the inspectors general and the General Accounting  
3 Office are probably the best independent tools that taxpayers  
4 have to have an oversight responsibility.

5 Congress doesn't have the staff to look detailed  
6 into any one agency. They pick selected subjects. And even  
7 GAO doesn't have the staff to kind of be on top of what's  
8 going on.

9 As part of the executive branch, by the way, we  
10 feel strongly that we are executive branch agency people.  
11 Even though we have a reporting role to Congress, we work for  
12 the President of the United States, and our goal is to  
13 improve the operations of programs run by the executive  
14 branch.

15 And I think basically, just taking the Appalachian  
16 Regional Commission, which is a case in point, and it's  
17 somewhat different than LSC, because you've had audit  
18 functions, well, the Appalachian Regional Commission,  
19 established in 1965, never had an audit or investigative  
20 function.

21 The General Accounting Office would show up about  
22 every 10 years or they would get a call that there was a fire

1 out in the field or at headquarters and they would hire a CPA  
2 firm to look at it.

3 But what I viewed in three years is not so much our  
4 reports, which by their very nature are critical,  
5 constructively critical, and we're here to help, and you've  
6 heard all those good terms which you really don't appreciate,  
7 but despite the fact that we question dollars, we get funds  
8 returned, we get funds obligated, the single most value I've  
9 seen, and I've seen it since 1962 in the Department of  
10 Agriculture, is the deterrent role, the fact that somebody is  
11 there that may come around to take a look.

12 Our grant approval process and our grant monitoring  
13 process in our headquarters, plus the grantee administration  
14 program in the field, just looking at what was done four or  
15 five years ago by looking at plans, looking at progress  
16 reports, looking at closeout reports, what's being done in  
17 the last three years is a lot better at protecting the  
18 government's funds.

19 The financial management records are a lot better.  
20 The performance of grants on a timely basis are a lot better  
21 simply because people might come around and might say  
22 something. Obviously, just like your organization, we don't

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1 get around to all the grants. We have to select things.

2 But I think the deterrent value, particularly of an  
3 audit, probably outweighs the results value in many cases,  
4 and it's not quantifiable in our semiannual reports. To  
5 Congress we must say what we did, how many dollars were  
6 questioned and how many were disallowed, and on the  
7 investigative side it's fairly easy to quantify.

8 But overall I think Dave hit it. It's the  
9 credibility of the agency, and I think it provides a sense of  
10 integrity to people who really don't have any intention of  
11 doing anything wrong, but it gives them that added incentive  
12 to make sure they do something right.

13 MR. WILLIAMS: If I could add one more thing, too,  
14 this is really an intangible, but I really think it's real.  
15 It allows the program managers an easy way out of being the  
16 bad guy when they are approached with questionable  
17 suggestions. It allows the program manager to say, "I would  
18 love to hire the nephew that you keep up in your attic, but I  
19 can't do it. The insepctor general would figure it out."

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

21 CHAIRMAN HALL: Any other questions? Anyone?

22 (No response.)

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1 CHAIRMAN HALL: Thank you very much, gentlemen.

2 MR. WILLIAMS: Thank you.

3 MS. SPARKS: Thank you.

4 CHAIRMAN HALL: What I'd like to do at this point  
5 is take maybe a 10-minute break, and I would really like to  
6 come back and finish no. 8 before we eat if we think that can  
7 be done, and then go into closed sessions. Thank you. We'll  
8 be recess for 10 minutes.

9 (A brief recess was taken.)

10 CHAIRMAN HALL: Okay, take your seats. We're going  
11 to go back into session and continue with topic No. 8, which  
12 is consideration of the Inspector General's report on the  
13 fiscal year '93 budget request for the Office of Inspector  
14 General. Is Ed in the room? No? Do you want to see where  
15 he is, Karen. There's Ed. Mr. Quatrevaux.

16 MR. QUATREVAUX: Yes, Mr. Chairman. Would you like  
17 me to open with Agenda Item 8, description of our budget  
18 request?

19 CHAIRMAN HALL: Please.

20 MR. QUATREVAUX: Thank you, Mr. Chairman. Before  
21 speaking to the details of our budget request I'd like to  
22 make several points that may add perspective.

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1           The first is that the Board must make a budget  
2 decision, a decision regarding our budget, in the context of  
3 LSC as a whole. Also, the OIG budget requests that I believe  
4 to be the minimum resources necessary to perform our  
5 statutory duties adequately. I seek this committee's support  
6 for the request, and its recommendation that it be funded.

7           Having said that, I want you to know that I have  
8 concern regarding the current budget process. It has  
9 resulted in a situation of unintended, yet apparent,  
10 competition for resources between this OIG and the LSC  
11 offices we are charged with evaluating. We make great  
12 efforts to avoid even the perception of partiality because  
13 it's incompatible with the successful performance of our  
14 mission.

15           Unfortunately, the current budget process will  
16 continue to create this undesirable situation, this potential  
17 for perceptions of partiality. And I believe we should want  
18 to prevent its recurrence.

19           To this end, Mr. Chairman, I request that the  
20 committee place two items on its December meeting agenda.  
21 The first would be my proposal for a separate budget line  
22 item for OIG; and the second would be consideration of the FY

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1 '94 OIG budget request. The Corporation will be submitting  
2 an FY '94 budget request to Congress in January or February.  
3 If we are to avoid this problem next year, we should move  
4 soon, very soon, to consider change.

5 Any questions on those points?

6 CHAIRMAN HALL: No, that's fine. I'll place those  
7 on the agenda.

8 MR. QUATREVAUX: Thank you. There are two general  
9 questions raised earlier regarding this budget request. The  
10 first deals with the relationship between this request and  
11 the operational concept presented by me a year ago.

12 The second concern is the proportion of management  
13 and administration budgets allocated to OIGs in grant making  
14 designated federal entities, or DFEs.

15 Sixty days after my arrival I presented an OIG  
16 operational concept that relied heavily on oversight of  
17 existing LSC processes to satisfy our mission. I presented  
18 the chart entitled "Planned Audit Activities," and explained  
19 that rather than transferring MAC or portions thereof into  
20 OIG, as some thought proper, I planned to fulfill IG  
21 responsibilities through oversight of existing activities.

22 For example, MAC's monitoring visits would continue

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1 to cover grantee compliance, economy, efficiency and  
2 effectiveness, while OIG would periodically evaluate the  
3 monitoring function itself via performance audit. I proposed  
4 an OIG staff of 13, counting myself, and said, "This is an  
5 interim organization looking out about 12 to 18 months, what  
6 I think is necessary to get things going, to get the program  
7 off the ground."

8 A logical question might be, what accounts for the  
9 difference between that early estimate and your current  
10 assessment of OIG staffing needs. The primary difference is  
11 in the financial related audit category for grantees. This  
12 is the type of audit used to detect and deter fraud, and I  
13 said at the time that I planned to conduct periodic reviews  
14 of the independent financial audits on a sampling basis.

15 My estimate at the time was that very few, less  
16 than five percent of the audits, might fail professional  
17 standards. However, as you've heard, the PCIE report  
18 released earlier showed that 78 percent of the IPA audits in  
19 Fiscal Year '91 needed major changes or were rejected  
20 completely.

21 My earlier staffing estimate was also based, to  
22 some degree, on what I saw in the IG community. I only

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1 learned later that other DFE OIGs have much of their audit  
2 work done by the larger cabinet agency IGs under the Single  
3 Audit Act. Finally, there's a greater need for audit work  
4 inside LSC than I had originally believed.

5 Summing up, the interim concept was just that, an  
6 estimate made shortly after my arrival, subject to adjustment  
7 based on the experience in our first 12 to 18 months. Much  
8 has been learned in that time and that knowledge is what  
9 accounts for OIG requirements increasing from \$1 million to  
10 \$1.27 million.

11 Another entirely logical notion, I asked for a  
12 comparison between other DFE OIGs and our proposal in terms  
13 of the percentage of entity overhead for nongrant budget  
14 consumed by the OIGs. In general, I believe that such  
15 numerical comparisons are hazardous, at best, because of the  
16 diversity in operating environments. Even so, the numbers we  
17 obtained from Mr. Sparks support our budget request.

18 I ask you to refer now to the chart entitled,  
19 "Grant-Making Designated Federal Entities," or DFEs. The  
20 data, as I said, was provided by Mr. Sparks on an informal  
21 basis, and that's why I've labeled the entities A through F.  
22 Of course, we know who we're talking about, and can provide

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1 that if you need it.

2 In the second column appears the total entity  
3 funding, and the third shows their equivalent of our M&A  
4 line. The fourth column shows the percentage that M&A  
5 consumes as a proportion of the total, or, if you will,  
6 overhead. OIG budgets appear in the next column, and in the  
7 far right, the percentage of the M&A budget represented by  
8 OIG. Take a moment to look at the chart, if you like.

9 I'd like to draw your attention to three points.  
10 First, LSC is second only to the National Science Foundation  
11 in dollar value of grants awarded, that is, among the DFEs.  
12 Second, as you have heard earlier, these other DFEs get audit  
13 help from the Cabinet Department OIGs, whereas we do not.  
14 Therefore, the other DFEs have less to audit per dollar  
15 granted than we do.

16 However, what is most important to this calculus is  
17 the relationship between the percent that overhead makes up,  
18 column four, and the percentage OIG makes up of that  
19 overhead. You may have noticed that column four is in  
20 descending order, and column six is in ascending order. In  
21 other words, there is an inverse relationship between the  
22 two, and it's an entirely logical one.

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1           The differences in percentage of overhead  
2 represent, among other things, differences in the activities  
3 performed attendant to making grants. Some DFEs receive and  
4 evaluate thousands of grant applications from individuals and  
5 groups with whom they have no experience. They also award  
6 many one-time grants. These activities drive the need for  
7 substantial staff and the larger degree of overhead.

8           LSC, on the other hand, operates under the  
9 presumptive refunding concept. If all LSC grants were not a  
10 given, as they are, LSC would require much more staff to  
11 handle the increased volume and applications in their  
12 evaluation, as well as the award and administration of such  
13 grants.

14           As you can see, LSC's overhead is quite low, which  
15 automatically means that the OIG budget will be a greater  
16 percentage than most. If, for example, LSC overhead was \$72  
17 million like DFEA, which grants less funds than LSC, our  
18 budget would be less than two percent of the M and A line.  
19 There are other factors that influence the entries on this  
20 chart. DFE, for example, is a minority funding source for  
21 its grantees. Although I would not rely on simple numerical  
22 comparisons for budget decisions, the data here, if anything,

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1 supports the OIG requested budget level.

2 And questions on that chart?

3 (No response.)

4 MR. QUATREVAUX: I'll turn now to the other charts  
5 detailing our budget request. The graphic with the pie  
6 charts is just a re-do, all of these are a re-do of the three  
7 you received at the last meeting.

8 The pie chart attempts to show that most of our  
9 first year activities were devoted to mandatory audit work  
10 and management support projects. After that, audits within  
11 LSC consumed most of the remainder.

12 Moving to '93, FY '93 and FY '94, we estimate a  
13 decrease in that category as we complete initial projects and  
14 building of the tools that support our operations.  
15 Correspondingly, the percentage of audit effort with respect  
16 to field programs will increase over the same period. Audit  
17 work in LSC itself should hold relatively steady at about  
18 one-third of the total.

19 The chart entitled "Audit Plans" attempts to give  
20 you a feel for relative workload in the different audit  
21 categories. The first column shows the categories of audits.  
22 For each category you see an entry depicting the number of

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1 audit management days and audit staff days we estimate are  
2 required to perform the audit work planned in that category.

3 For example, in the "Mandatory/Management Support"  
4 category for FY '93 we estimate that 105 days of management,  
5 and 363 days of staff are required to perform the plan work.  
6 This category includes the Audit Universe Review we are  
7 required to conduct, as well as follow up audits. Please  
8 note that we also plan to use contract audit services for  
9 some of the work, and estimate its cost at \$5,000.

10 Going down the categories you see that the greatest  
11 staff effort is in LSC financial audits. This reflects, in  
12 part, the lack of audits within LSC heretofore. For example,  
13 the previously announced LSC revenue audit has the objective  
14 of providing you with the assurance of the integrity of LSC's  
15 financial systems as it receives and distributes our revenue.

16 We estimate performance auditing with the LSC to  
17 require the staffing shown and the remaining of the  
18 consulting dollars requested.

19 "Field Financial" for FY '93 shows only a known  
20 investigative support project which is already underway. Any  
21 additional audit work of this type adds to staffing needs.  
22 The subtotal that you see is before the Quality Assurance

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1 Program is counted. The grand total for Fiscal Year '93, as  
2 you can see, adds to 470 audit management days, and 1,453  
3 audit staff days. Of course, these are estimates.

4 Comparable figures are also shown for FY '94 to  
5 show that while there are fluctuations, the basic workload is  
6 at this general level.

7 The last chart compares workload estimates with  
8 current and required, or proposed, staffing for the two  
9 fiscal years. The workload data comes from the previous  
10 chart, and is shown first. We have, for example, to compare  
11 FY '93 workload of about 450 audit staff days versus  
12 approximately 750 audit staff days that we have available  
13 with our current staffing. Required staffing, our request is  
14 to move up to approximately 1,200 staff days capability, with  
15 is still somewhat short of the 1,450 days workload. The data  
16 for '94 is similar, the changes in required staffing  
17 reflecting employees hired partway into '93, and available  
18 for all of '94.

19 These charts summarize our audit workload in  
20 current and requested resources, and I believe that they show  
21 our request is reasonable.

22 Can I take any questions on these charts?

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1 MR. WITTGRAF: Mr. Chairman.

2 CHAIRMAN HALL: Mr. Wittgraf.

3 MR. WITTGRAF: Mr. Quatrevaux, do these charts --  
4 and particularly the two supplemental ones, the audit plans  
5 and the audit staffing sheets -- include the investigative  
6 function of the office, or is that in addition to this?

7 MR. QUATREVAUX: That is in addition. This portion  
8 deals solely with audit.

9 MR. WITTGRAF: Okay. Are you assuming that the  
10 investigative function is constant or static through the  
11 three fiscal years, '92, '93, and '94, then?

12 MR. QUATREVAUX: I think it's difficult to make a  
13 projection there. I think the workload that we have now  
14 certainly challenges the people who work there. We are  
15 looking forward to seeing what sort of results we get out of  
16 the hot line, and for that matter, the Quality Assurance  
17 Program, because these are both sources of investigative  
18 workload.

19 MR. WITTGRAF: Am I correct in inferring that as  
20 you look to the need for an expanded budget, that expanded  
21 need is driven largely by the audit side, then, in your  
22 analysis, rather than the investigative side?

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1 MR. QUATREVAUX: Totally.

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

3 CHAIRMAN HALL: Any other questions?

4 (No response.)

5 CHAIRMAN HALL: Ed, do you have more?

6 MR. QUATREVAUX: Just to close by saying what I  
7 think this budget buys. It funds completion of mandatory  
8 projects and it buys audits that assure the integrity of  
9 LSC's financial systems. It establishes a very efficient  
10 quality assurance program that bills on current resources and  
11 costs, and that will be our first line against fraud in the  
12 field. And it will allow us to shift from a reactive to a  
13 proactive mode in fighting fraud.

14 Most important, it has the potential of cutting the  
15 losses that do occur through earlier discovery, not to  
16 mention the deterrent value that it is, in fact, impossible  
17 to measure or predict.

18 That's all I have, Mr. Chairman.

19 CHAIRMAN HALL: Your quality assurance program  
20 accounts for the increase that you want?

21 MR. QUATREVAUX: That's correct.

22 CHAIRMAN HALL: I know you're aware of our

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1 financial situation here.

2 MR. QUATREVAUX: Yes, I am.

3 CHAIRMAN HALL: I know you put a priority on  
4 different matters within your department. Will you go  
5 forward with the quality assurance programs and sacrifice  
6 other work you've done in the past if you don't get the full  
7 funding for it that you need? And if so, what will suffer?

8 MR. QUATREVAUX: I don't think I can operate it in  
9 the manner that's envisioned within current staffing, even  
10 sacrificing other projects. I'll think we'll just have to  
11 figure out something different, something that's perhaps not  
12 as effective, something that doesn't give us as much  
13 coverage. But we have not yet faced that.

14 CHAIRMAN HALL: You would do some of that? You  
15 would do some quality assurance and let some other things go  
16 by the wayside?

17 MR. QUATREVAUX: Yes, I'm sure we would.

18 CHAIRMAN HALL: You can't tell me at this time what  
19 you would let go by the wayside?

20 MR. QUATREVAUX: Well, there are two general  
21 schools of thought here. One is, you decline to do the  
22 mandatory and then publicize that fact, essentially saying,

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1 "I can't do what I'm supposed to do because I don't have  
2 enough money to do it." I don't particularly like that  
3 approach.

4 I think we really want to approach it from a  
5 technical perspective and simply figure out what we can do  
6 with what we end up.

7 CHAIRMAN HALL: Maybe that first approach would win  
8 you your line item argument with Congress later on.

9 MR. QUATREVAUX: Well, I think that there is enough  
10 good reason for a separate line item.

11 CHAIRMAN HALL: Other than that?

12 MR. QUATREVAUX: Other than that.

13 CHAIRMAN HALL: Ed, are you familiar with the  
14 different cuts and things that the other Corporation  
15 departments have done?

16 MR. QUATREVAUX: I certainly am.

17 CHAIRMAN HALL: Have you all done anything similar  
18 to that?

19 MR. QUATREVAUX: Well, no, we never got to be a  
20 mature organization, I guess, is the perspective that I have.  
21 I would agree that the cuts that I have seen are Draconian.  
22 It's a very serious situation, and I appreciate that. I just

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1 think it's impossible to make a comparison between the two.

2 H: You feel like there is no cuts similar to those  
3 that Jack has made, that you can make in your department?

4 MR. QUATREVAUX: No. I'm here pleading the case  
5 for additional resources, Mr. Chairman. I don't see how we  
6 could take cuts.

7 CHAIRMAN HALL: David Richardson, do you want to  
8 come forward and tell us what is available?

9 MR. RICHARDSON: Good afternoon. For the record, I  
10 am David Richardson, the treasurer/comptroller of the  
11 Corporation.

12 We are here, of course, looking at the IG's budget.  
13 The total budget that the Corporation has been trying to  
14 develop is still a moving target. For instance, we still do  
15 not have the complete resources at our disposal that have  
16 been identified.

17 We started with a budget of \$12,400,000, that  
18 included \$1,017,000 budget from the IG's office. Sitting  
19 down with each director, the president and I reduced that  
20 budget to \$12,178,000. Since that time we've identified some  
21 additional savings.

22 Our freeze budget, if we were to adopt the budget

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1 that that you looked at at the last period would be reduced  
2 \$32,000, because we identified the dental plan and we reduced  
3 that approximately \$30,000 by changing carrier and changing  
4 the coverage slightly. And we've identified some different  
5 duplicative subscriptions, and so forth, that we're reducing.

6 So, basically we're down to a budget of \$12,146,000  
7 in a freeze. Since that time, what we're looking at is to --  
8 and that does include the full, I should say the \$1,017,000  
9 that we originally received from the IG's office when we were  
10 requesting a freeze budget.

11 MR. WITTGRAF: What is that figure, Mr. Richardson?

12 MR. RICHARDSON: The freeze budget from the IG was  
13 the \$1,017,000.

14 MR. WITTGRAF: Is that \$1.17 million?

15 MR. RICHARDSON: \$1.017 million.

16 MR. WITTGRAF: Anything after the 7?

17 MR. RICHARDSON: There was --

18 MR. QUATREVAUX: 835.

19 MR. RICHARDSON: Okay.

20 MR. WITTGRAF: It was almost 1.018.

21 MR. RICHARDSON: Yes, almost. Since that time we  
22 have discussed, internally, ways that we could possibly

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1 reduce the budget. We have not increased our particular  
2 budget estimates until we see where the IG's budget would  
3 come out -- is what I'm speaking to.

4 That increase was from \$1,017,000 to \$1.274  
5 million. We've not increased that amount to our budget.  
6 We've just tried to identify areas that we could cut and  
7 reduce the overall budget.

8 To go back and recap a little bit, our  
9 appropriation this year is \$9,774,000. We anticipated  
10 \$450,000 in carry-over. That's still moving slightly.  
11 Hopefully, that will go higher as we finish our audit that  
12 started this morning. We also identified the construction  
13 money and the deferred rent incentive that would raise our  
14 budget to an additional \$1.160. That brings our budget to  
15 \$11,384,000.

16 The other monies that had been identified for us to  
17 use was \$300,000 is what we would project for our interest in  
18 grant recoveries. So that raises our total amount that is  
19 available to \$11,684,000.

20 That leaves us approximately \$500,000 short, and  
21 that was without the \$250,000, or so, increase from the IG's  
22 office.

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1           Since that time, our cuts are two-fold. We're  
2 trying to do it in phases. We have prepared a budget for  
3 \$11,891,000; and a second budget of \$11,634,000. And again,  
4 as you see, both of the -- the very last one gets us within a  
5 target amount. And again, that does not include the \$260,000  
6 increase that the IG is requesting.

7           CHAIRMAN HALL: What would you have to do to get  
8 that extra money?

9           MR. RICHARDSON: At this point, the way that we're  
10 cutting the budget is to show days of furlough.

11          CHAIRMAN HALL: Are you actually currently doing  
12 that?

13          MR. RICHARDSON: No, we're not. What we've done is  
14 we've projected if we would start in December. So, for  
15 instance, we've projected 10 days furlough, and then we've  
16 projected 20 days furlough.

17          To add an additional \$260,000 to the IG's budget,  
18 for its purposes, we would have to go another 10 days  
19 furlough.

20          CHAIRMAN HALL: Do you have a comment?

21          MR. O'HARA: Mr. Chairman, the only comment I'll  
22 make is we're being very careful in our discussion of

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1 furlough days for the simple reason that we exist for the  
2 purpose of aiding the grantees out in the field. We cannot  
3 cut -- we cannot plan any more furlough days than that.  
4 Twenty is going to be very tough, 30 would be most difficult,  
5 if not impossible to do our job.

6 We have to service the grantees. The only way we  
7 can do that is if we're in here and we can respond to them.  
8 But we're prepared to do it.

9 MR. WITTGRAF: Mr. Chairman.

10 CHAIRMAN HALL: Mr. Wittgraf.

11 MR. WITTGRAF: Thank you, Mr. Chairman. Mr.  
12 Quatrevaux makes a good case, certainly, for where the IG  
13 function of the Corporation is headed, and I think it's one  
14 that this committee and the Board supports. And I think with  
15 the assistance of his colleagues this morning has described  
16 well the importance of the quality control reviews, or  
17 quality assurance audits, for the office of Inspector  
18 General.

19 On the other hand, if we're talking about budget  
20 figures, and even some of the figures that Mr. Richardson has  
21 mentioned are, if not hypothetical, at least tentative. And  
22 it's difficult to increase even the \$250,000 or \$260,000 from

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1 the \$762,000 to the \$1,018,000.

2 I just don't think it's realistic for this  
3 Committee to recommend to the Audit and Appropriations  
4 Committee, or to the Board, the \$1,274,000 budget.

5 My motion, Mr. Chairman, is that we recommend to  
6 the Audit and Appropriations Committee the \$1,017,835 budget,  
7 if possible, because we still expect the Audit and  
8 Appropriations Committee to make the puzzle come together and  
9 show a realistic picture. That, if possible, that would be  
10 available. That's the motion. Let me just comment a little  
11 bit farther.

12 Mr. Quatrevaux may think he's being whipsawed a  
13 little bit between gearing up and having a cut imposed, and  
14 perhaps, to some extent, he is. I would like to think that  
15 even in the so-called freeze budget amount of \$1,017,835  
16 there will be some flexibility, through management austerity  
17 and through the ebb and flow of employees, if among the 13  
18 there is any transition during the fiscal year which will  
19 allow the pick up of some thousands of dollars.

20 I also look at page seven of the memorandum given  
21 to us this morning by, I believe, Mr. Sparks, Hubert N.  
22 Sparks, that being the memorandum for Heads of Designated

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1 Federal Entities, dated November 13, 1992.

2 At page seven of that one of the provisions is, and  
3 I quote, "It is expected that entity heads will apply agency  
4 budget reductions, redistributions, sequestrations, or pay  
5 raise absorptions to the Office of the IG with due  
6 consideration of the effect that such application would have  
7 on the office's ability to carry out its statutory  
8 responsibilities."

9 As I understand it, if it's possible to work up to  
10 the \$1,017,835 figure, that wouldn't even be applying  
11 reductions or redistributions, but rather would be trying to  
12 let him carry forward on the basis that's been established  
13 with the build up during Fiscal Year 1992. So that, I'd like  
14 to think that that's a balanced figure, but my motion also  
15 contemplates that it is a recommendation, or a target for the  
16 Audit and Appropriations Committee taking into account the  
17 other pieces of the puzzle that that Committee needs to fit  
18 together.

19 Thank you, Mr. Chairman.

20 CHAIRMAN HALL: Thank you, Mr. Wittgraf. Before I  
21 ask for a second to that motion, I'd like to -- we have Mr.  
22 Jim Naughton in our audience. He wrote the original IG Act,

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1 as I understand it, and I wonder if he would come forward and  
2 comment on that clause, George, and on the Corporation's  
3 obligation to fund the IG's budget request, whatever it may  
4 be.

5           Apparently, they have a situation here where  
6 funding the IG's request so that he can sufficiently carry  
7 out his function will cut into, or bite into, the other  
8 departments and their abilities to carry out their functions  
9 by causing furloughs and things of that nature.

10           Mr. Naughton, thank you for coming.

11           MR. NAUGHTON: Well, certainly, the Act does not  
12 contemplate that the IG shall receive everything that he  
13 might desire at the expense of crucial activities of an  
14 agency that might have to be reduced or eliminated in order  
15 to accommodate that request.

16           I think that the intent of the Act, and certainly  
17 I've heard -- the chief sponsor was Congressman L.H. Fountain  
18 of North Carolina. And I've heard him say dozens of times  
19 that a good Inspector General should be the best friend an  
20 agency had. And it should not be an adversarial  
21 relationship, if at all possible.

22           The Act was written so that an IG could operate

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1 even under an adversarial relationship. But that is not the  
2 ideal by any means, and I think that, certainly, the request  
3 of the IG should be considered in context with what is  
4 happening to the rest of the agency.

5 CHAIRMAN HALL: Well, to Ed's credit he has  
6 prefaced his presentation with the fact that he has a strong  
7 feeling for not wanting to effect the other operations of the  
8 Corporation. But I've always wondered what legal obligation,  
9 or what does the Inspector General's Act tell us that we must  
10 do so far as --

11 MR. NAUGHTON: It really doesn't specify. It  
12 probably comes out most strongly in terms of providing  
13 administrative support, such as offices, and so forth. The  
14 reason for that was, for example, the Justice Department for  
15 many years -- and probably still does -- has its auditors  
16 over in Northern Virginia, and we were kind of the opinion,  
17 in looking at it, that they required a pass to come into the  
18 District of Columbia. They didn't want them around.

19 So that the intent of that part of it was to make  
20 sure that an agency did not try to starve out an Inspector  
21 General, or hamper their operations by not giving them  
22 adequate office space, not allowing them to be headquartered

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1 where the action was going on. Also, you had a situation at  
2 that time when we were finding that there were activities  
3 that had never been audited.

4 The Department of Health, Education and Welfare,  
5 for example, in the investigative area had 10 investigators  
6 with a 10 year backlog of uninvestigated cases, which was  
7 clearly not appropriate.

8 But I think that where an agency in good faith is  
9 trying to see that, in the light of the needs of the agency  
10 as a whole, the IG gets a fair share of that and measures the  
11 priorities that are involved, certainly, there is no problem  
12 in the law on that.

13 CHAIRMAN HALL: Does anyone else have any questions  
14 for Mr. Naughton?

15 (No response.)

16 MR. NAUGHTON: In that light, I think talking a bit  
17 about cooperative relationships I think you have a particular  
18 problem here that's unique to LSC in that the head of the  
19 agency, according to the law, is the Board of Directors. And  
20 as you well know, you don't have secretaries, you don't have  
21 officers, you do not have a lot of facilities to work with.  
22 You meet every month or two.

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1           So it is, in most cases, the head of the agency is  
2 also the person responsible for managing the day-to-day  
3 affairs of the agency. Or, at least, being sure that they  
4 are being carried out. His office is in the building, the  
5 people report to him.

6           This is kind of a unique situation in that the  
7 operating responsibility is placed upon the President, and  
8 it's his job, really, to make sure that the day-to-day  
9 operations are carried on economically and efficiently, and  
10 that problems are solved just as quickly as they can be.

11           And in order for that to happen, while the IG may  
12 technically report to the Board under the law, it's important  
13 that he keep the President informed of what is wrong as soon  
14 as he finds it, unless there is some conflict of interest  
15 whereby informing the President might be seen as improper or  
16 inappropriate.

17           And this is the kind of working relationship that  
18 was contemplated under the bill, that the IG would act, in a  
19 sense, as the eyes and ears of management. And the  
20 provisions -- there are a number of very strong provisions  
21 about the authority of the Inspector General. They were put  
22 in there to make sure that an IG could operate to some degree

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1 of effectiveness, even over the opposition of management.

2 But I must say, from my limited experience with  
3 LSC, and with this particular Board, it appears to me that  
4 the Board and the President have given absolutely complete  
5 backing to the IG, so that he could operate very well even  
6 without the provisions in the law that give him authority.

7 CHAIRMAN HALL: I know I feel like we've had a very  
8 good relationship with Ed, and I think he feels the same  
9 about us.

10 MR. NAUGHTON: I guess I got a little off the  
11 subject there. But I will say that as far as the law is  
12 concerned, it doesn't require that any specific amount be  
13 provided. It certainly doesn't require that an IG get  
14 everything that he ask for.

15 It is the intent of the law that the IG certainly  
16 be given a fair share of the resources, and that his  
17 priorities be carefully considered in the light of those of  
18 the agency as a whole.

19 CHAIRMAN HALL: Thank you, Mr. Naughton. With  
20 that, George, as I understand your motion it is that we, as a  
21 Committee, recommend to the Audit and Appropriations  
22 Committee a budget of \$1,017,835 for the Office of Inspector

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1 General, and that that figure is basically a freeze budget  
2 figure. Is that correct?

3 M O T I O N

4 MR. WITTGRAF: Yes. And I made the motion with the  
5 caveat that we're only looking at one slice of the pie, one  
6 piece of the puzzle. And we would ask that to be a target,  
7 or a goal, for the Audit and Appropriations Committee to  
8 have.

9 CHAIRMAN HALL: Do I hear a second to that motion?

10 MS. WOLBECK: I'll second it.

11 CHAIRMAN HALL: The motion has been moved and  
12 seconded. All in favor say aye.

13 (A chorus of ayes.)

14 CHAIRMAN HALL: Opposed, no.

15 (No response.)

16 CHAIRMAN HALL: The motion carries.

17 MR. QUATREVAUX: Mr. Chairman.

18 CHAIRMAN HALL: Yes, sir.

19 MR. QUATREVAUX: May I just make a point? It seems  
20 that I neglected to.

21 CHAIRMAN HALL: Sure. I didn't mean to run you off  
22 from the table, actually.

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1 MR. QUATREVAUX: No, you haven't. While the  
2 efforts the Corporation has made to cut costs have been  
3 significant, and ours do not compare, we have been sensitive  
4 to the current situation. We have had an auditor position  
5 that's been open for at least two months, that we're aware  
6 of, that we have chosen not to fill. We've also canceled  
7 certain training, and looking for better ways to satisfy it.  
8 So, I just wanted to make that point.

9 I also -- and it's really the Board's, obviously,  
10 the Board's concern, and not my own -- but I had hoped that  
11 this Committee could function as something of an authorizing  
12 committee. And in that sense, provide some sort of  
13 recommendation of support for the quality assurance function  
14 itself. And in general, the activities that were described  
15 to you.

16 I think the funding is something else, apart from  
17 that. So, if it's possible, either now, or at some future  
18 date, to consider that. Actually, now would be better, if  
19 you would entertain that possibility.

20 Thank you.

21 MR. WITTGRAF: Mr. Chairman.

22 CHAIRMAN HALL: Mr. Wittgraf.

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1           MR. WITTGRAF: I guess I'd like to think that my  
2 comments were supportive of that function, and actually,  
3 that's why I asked you at the very beginning of today's  
4 deliberations what you thought would happen regarding the  
5 preliminary use of that function or that concept, even with  
6 budget constraints.

7           I, for one, as a member of the Committee think that  
8 it is important and its importance was why I raised some of  
9 the questions that I did with Mr. Sparks, and also with David  
10 Williams, to see if where we seemed to be headed as a  
11 Corporation on the management side and the IG side was, at  
12 least, not outside the range of normalcy or general  
13 expectations.

14           And I think I heard Mr. Sparks to indicate that the  
15 approach we're taking; and that, particularly, you, and Ms.  
16 Sparks, and the division of monitoring audit and compliance  
17 have taken, is a reasonable and acceptable approach.

18           So, at least I wanted my earlier comments, as I  
19 made the motion to be interpreted as supportive of that  
20 concept, absolutely. And I think I, for one Board member, am  
21 very much looking forward to the results of those kinds of  
22 quality control reviews, or quality assurance audits, to see

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1 what they can teach us as a Board, our staff, and presumably,  
2 the recipients of those reviews, as well.

3 Thank you, Mr. Chairman.

4 CHAIRMAN HALL: And Ed, let me say for the record,  
5 so that the people here feel you're the cold-hearted  
6 investigator that you appear to be, that you have expressed  
7 to me your concern about the furloughs and your desire that  
8 those not happen, if at all possible. But in turn, you had a  
9 duty to come to us and tell us what you needed. So, I  
10 certainly want it known that Ed's approach to this has been a  
11 human approach, and I appreciate that.

12 My question to Mr. Naughton on whether or not we  
13 have to give the money, that question was generated from this  
14 Board member, and certainly not from any suggestion by Ed  
15 that we had no alternative.

16 So, I appreciate your help in this most difficult  
17 decision.

18 MR. QUATREVAUX: Thank you for your comments, Mr.  
19 Chairman.

20 CHAIRMAN HALL: And I certainly support your  
21 quality assurance program, and I would scratch around to find  
22 some way to do it, if possible. And hopefully, that will

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1 come with your line item.

2 MR. QUATREVAUX: If nothing else, perhaps you would  
3 entertain a resolution by this Committee for the Board, or  
4 recommendation. I don't know.

5 CHAIRMAN HALL: We will in the future. Fair  
6 enough?

7 MR. QUATREVAUX: Thank you, Mr. Chairman.

8 CHAIRMAN HALL: Thank you. With that, we will move  
9 into closed session at this time for our consideration of  
10 Item No. 7 on the agenda, which is "Consideration of the  
11 Inspector General's Employment Contract."

12 M O T I O N

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

14 CHAIRMAN HALL: Okay. A second to move into  
15 executive session?

16 MS. WOLBECK: Second.

17 CHAIRMAN HALL: All in favor say aye.

18 (A chorus of ayes.)

19 CHAIRMAN HALL: Okay. We'll move into executive  
20 session It's a vote.

21 (Whereupon, at 1:35 p.m., the meeting was adjourned  
22 to Executive Session.)

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1 \* \* \* \* \*

2 (2:20 p.m.)

3 CHAIRMAN HALL: We're back in open session.

4 MS. DiSANTO: For the record, my name is Emilia  
5 DiSanto, I'm the acting Vice President.

6 As you know, the Office of Inspector General issued  
7 their semiannual report for the period of April, 1, 1992 to  
8 September 30, 1992. As you also know, the head of the agency  
9 is responsible for preparing a response and a management  
10 report to the semiannual report of the Inspector General.

11 That report is due on November 30, 1992, and  
12 because we will not be meeting until December 7, 1992, a  
13 voice -- I should say, a mail vote will be taken with regard  
14 to the management report around November 23rd, somewhere in  
15 that time frame.

16 Each of you, I believe, has received the initial  
17 draft of the management report. I am prepared to answer any  
18 questions you might have, and modify it as necessary. The  
19 modifications I currently anticipate making to the report  
20 primarily have to do with two statistical tables that are  
21 going to be introduced into this report.

22 One is management's report with regard to the OIG's

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1 general audits regarding disallowed costs; and the second is  
2 with regard to the IG's audit recommendations that funds be  
3 put to better use. This is strictly pro forma because we  
4 really have no responses to that information.

5 But it's pro forma in that we need to have the  
6 information set forth in the report, primarily for Government  
7 Operations who has been -- there have been general letters  
8 that have gone out that they've been concerned that  
9 statistical tables have not been included. We have been  
10 including them in a different form, but right now we're  
11 setting it up as we will have these particular forms in the  
12 future.

13 So, I'm prepared to answer any questions you might  
14 have, or to be able available for any modifications you'd  
15 like to see in this report.

16 CHAIRMAN HALL: Mr. Wittgraf.

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

18 Ms. DiSanto, let me ask you a general question. As  
19 you worked on the preparation of this draft report did you  
20 have available to you Edward J. Mazur's November 9, 1992,  
21 memorandum for Heads of Selected Designated Federal Entities,  
22 including the October 26, 1992, Staff Review of Compliance

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1 With Inspector General Act of 1978 semiannual reports?

2 MS. DiSANTO: No, Mr. Wittgraf.

3 MR. WITTGRAF: That wasn't supposed to be a trick  
4 question. I was hoping you were going to say yes.

5 MS. DiSANTO: We have received two letters from Mr.  
6 Hodsell over at OMB with regard to the semiannual report to  
7 management's semiannual reports.

8 Let me correct this for the record. 'Yes, we have  
9 received Mr. Mazur's letter.

10 MR. WITTGRAF: You're comfortable, then, that the  
11 draft and management response takes into account all of the  
12 constructive suggestions made in those materials?

13 MS. DiSANTO: Yes, I am. And that's primarily why  
14 we are making some changes to the statistical tables. As you  
15 think Mr. Mazur noted is that something like 25 percent of  
16 the designated federal entity? reports were actually  
17 rejected. In that regard, we've been fortunate that ours was  
18 accepted.

19 MR. WITTGRAF: And it will be even better this  
20 time.

21 MS. DiSANTO: I hope so.

22 MR. WITTGRAF: Two specific questions, then. Look,

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1 if you will, at pages eight and nine of your draft, talking  
2 specifically about the OIG budgetary needs. I certainly  
3 don't disagree with anything that you've stated there.

4 I was wondering if a little more could or should be  
5 said about the status of the OIG Fiscal Year '93 budget  
6 request, something about the fact that the Board contemplates  
7 adopting a consolidated operating budget for Fiscal Year '93  
8 at its December 7th meeting, and will make every effort to  
9 provide the office with as much funding as possible at that  
10 time.

11 MS. DiSANTO: Of course.

12 MR. WITTGRAF: It seemed to me as I read it that  
13 the loop could have been closed a little bit more completely.

14 MS. DiSANTO: That change will be made, Mr.  
15 Wittgraf.

16 MR. WITTGRAF: One other specific question, page  
17 14. The opening sentence, you say, "The OIG conducted an  
18 intensive and significant investigation over the course of  
19 1992." I wonder if you might go on, much as the IG did at  
20 page nine of his report, and state -- concerning allegations  
21 directed against some members of the Board of Directors and  
22 management officials of the Corporation, to make it clear

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1 that you're talking about that same investigation to which he  
2 referred.

3 MS. DiSANTO: That change will be made, Mr.  
4 Wittgraf.

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

6 CHAIRMAN HALL: Thank you, Mr. Wittgraf. Are there  
7 any further questions?

8 (No response.)

9 CHAIRMAN HALL: Emilia, do you have anything  
10 further?

11 MS. DiSANTO: No. Thank you, very much.

12 MR. WITTGRAF: One other thing, Mr. Chairman.

13 Ms. DiSanto, would it be -- on page 14, where  
14 you've got the rubber stamp text, would it be almost easier  
15 and more appropriate to put the stamp itself?

16 MS. DiSANTO: We can make that change, Mr.  
17 Wittgraf.

18 MR. WITTGRAF: Well, I was wondering how it  
19 compared in size, for example -- you're making it easier to  
20 read here, but I wonder if it's more telling to just actually  
21 use the stamp. I haven't seen the stamp, I just --

22 MS. DiSANTO: It is a bit smaller than this. I

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1 will put a copy of the actual stamp in the footnote, because  
2 we have that. So then they can -- in case it's not legible  
3 enough after copying you'll still have the actual text.

4 MR. WITTGRAF: That was the main result, if you  
5 will, of that significant internal investigation.

6 MS. DiSANTO: Yes, sir.

7 MR. WITTGRAF: Okay. Thank you. Thank you, Mr.  
8 Chairman.

9 CHAIRMAN HALL: Thank you, Mr. Wittgraf.

10 M O T I O N

11 MR. HALL: Do I hear a motion to approve the  
12 management draft report for referral to the full board as  
13 written, except for the changes that have been outlined?

14 MS. WOLBECK: So moved.

15 MR. WITTGRAF: Second, Mr. Chairman.

16 CHAIRMAN HALL: It has been moved and seconded.

17 All in favor -- is there discussion?

18 (No response.)

19 CHAIRMAN HALL: All in favor say aye.

20 (A chorus of ayes.)

21 CHAIRMAN HALL: Opposed, no.

22 (No response.)

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1           CHAIRMAN HALL: The ayes have it. We will  
2 recommend approval to the full Board.

3                           M O T I O N

4           CHAIRMAN HALL: The last item is Consideration of  
5 Motion to Adjourn. Do I hear that motion?

6           MS. WOLBECK: So moved.

7           CHAIRMAN HALL: Do I hear a second?

8           MR. WITTGRAF: Second.

9           CHAIRMAN HALL: All in favor, aye.

10           (A chorus of ayes.)

11           CHAIRMAN HALL: Opposed, no.

12           (No response.)

13           CHAIRMAN HALL: The ayes have it. We're adjourned.

14           (Whereupon, at 2:33 p.m., the meeting of the Office  
15 of the Inspector General Oversight Committee was adjourned.)

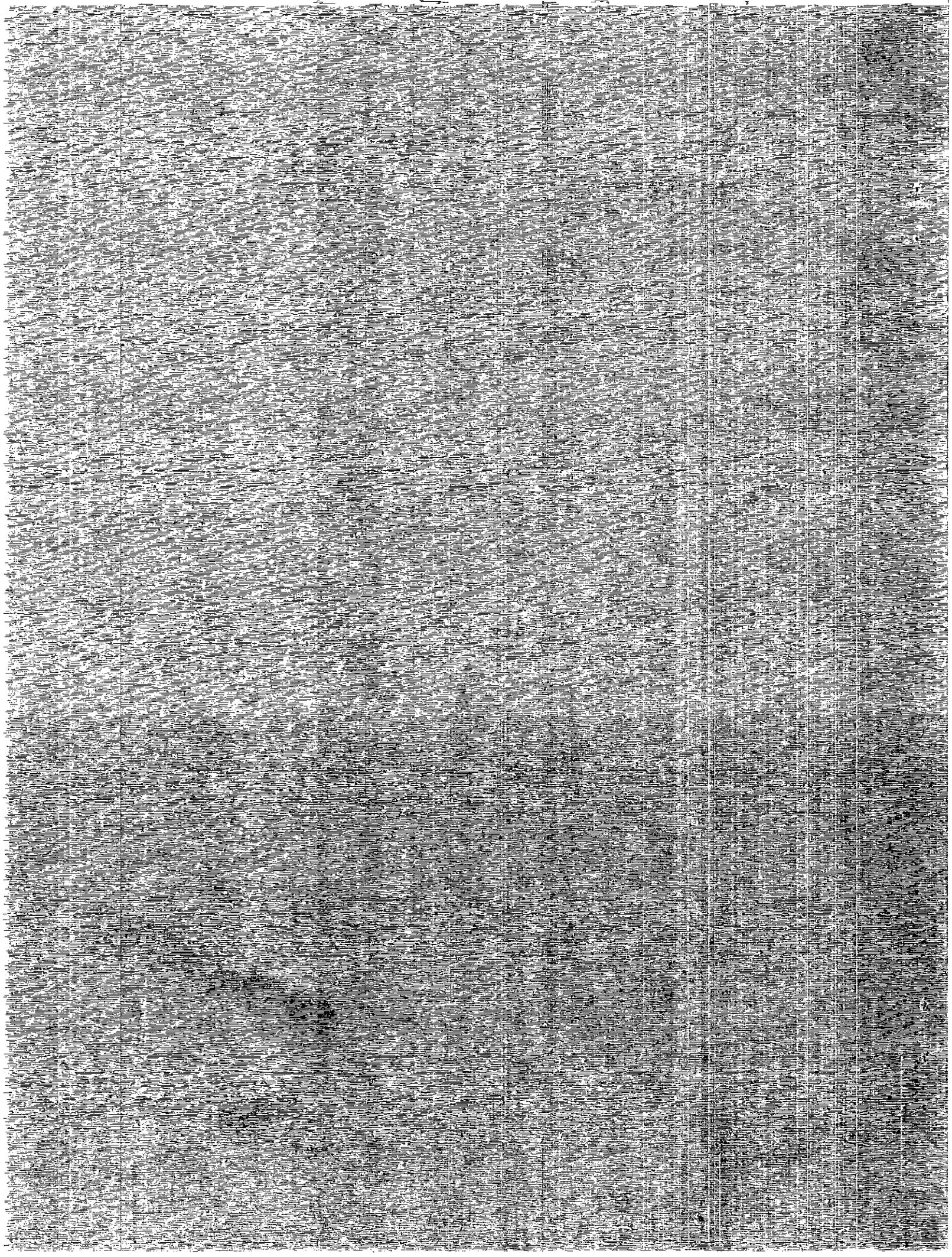
16                           \* \* \* \* \*

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**LEGAL SERVICES CORPORATION  
AUDIT AND APPROPRIATIONS COMMITTEE MEETING  
NOVEMBER 23, 1992  
COMMENCES AT 11:00 a.m.**

**The Legal Services Corporation  
750 1st Street, N.E.  
THE BOARD ROOM  
11th Floor  
Washington, D.C. 20002**

**LEGAL  
SERVICES  
CORPORATION**

*750 1st St., NE, 11th Fl., Washington, D.C. 20002-4250*  
Non-Profit Organization



**LEGAL SERVICES CORPORATION  
BOARD OF DIRECTORS  
AUDIT AND APPROPRIATIONS COMMITTEE MEETING  
OF NOVEMBER 23, 1992  
AGENDA**

**MATTERS TO BE CONSIDERED:**

**PAGE**

**OPEN SESSION:**

1. Approval of Agenda.
2. Approval of Minutes of October 18, 1992 Meeting.
3. Consideration of Status Report on the Leasing of the Corporation's Former Headquarters Office Space.
4. Consideration of Report on Historical Analysis of the Corporation's Expenditures Over the Past Twelve-Year Period.
5. Consideration of Office of the Inspector General Oversight Committee's Recommendation on the Fiscal Year 1993 Budget of the Office of the Inspector General.

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**CLOSED SESSION:**

6. Consideration of General Counsel's Report on the Proposed Fiscal Year 1993 Budget of the Office of the General Counsel.

**OPEN SESSION: (Resumed)**

7. Consideration and Review of Proposed Fiscal Year 1993 Consolidated Operating Budget.
8. Public Comment Regarding the Fiscal Year 1994 Appropriation Request For the Corporation.

**LEGAL SERVICES CORPORATION  
BOARD OF DIRECTORS  
AUDIT AND APPROPRIATIONS COMMITTEE MEETING  
of October 18, 1992  
Draft Minutes**

Chairman Howard H. Dana, Jr., convened a meeting of the Legal Services Corporation ("LSC" or "Corporation") Board of Directors Audit and Appropriations Committee on October 18, 1992, at 2:00 p.m. The meeting was held at Corporation headquarters, 750 1st Street, N.E., Washington, D.C.

Committee members Basile J. Uddo and Jeanine E. Wolbeck attended. Also attending were board members J. Blakeley Hall, Jo Betts Love, Norman Shumway, and George W. Wittgraf. John P. O'Hara, President; Patricia D. Batie, Corporate Secretary; David L. Richardson, Treasurer and Comptroller; and other staff and members of the public were also in attendance.

Mr. Dana began by calling for approval of the agenda.

**MOTION**

Mr. Uddo so moved, and Mrs. Wolbeck seconded. [See transcript, p. 4]

**VOTE**

The motion passed on a voice vote.

Mr. Dana called for approval of the minutes of September 26, 1992. Mr. Uddo asked that the minutes be amended to include a list of alternative means discussed by the Committee for covering a budget deficit, and Mr. Dana so directed.

#### MOTION

Mr. Uddo moved the minutes as amended, and Mrs. Wolbeck seconded. [See transcript, p. 6]

#### VOTE

The motion passed on a voice vote.

Mr. Dana called on Mr. Hall, who reported that the Provision for the Delivery of Legal Services Committee was considering a proposal to terminate funding for law school clinics, but would not act on the proposal until it received a report evaluating the clinics. During discussion, Mr. Uddo favored reallocating law school clinic funds to corporate management and basic field funding for fiscal year ("FY") 1993, and for loan forgiveness or recruitment for FY 1994. Kenneth Boehm, Assistant to the President and Counsel to the Board, explained that Congress would have to transfer the law school clinic funds because they are a line item in the Appropriations Act.

#### MOTION

Mr. Uddo moved to recommend that the Board seek legislative authorization to move the law school line. [See transcript, p. 16] The motion failed for lack of a second.

Following discussion of congressional procedures for supplemental appropriations, Mr. Richardson gave a status report on leasing LSC's former headquarters. He reported that approximately one-quarter of the space was now occupied, and he hoped to complete negotiations on the remaining space by January 1993.

Mr. Dana turned to a consideration of the Inspector General's ("IG") FY 1993 budget request, and IG Edouard Quatrevaux gave his reasons for requesting \$250,000 in additional funding. During a discussion of the IG's role and responsibilities, Mr. Uddo suggested that the IG Oversight Committee was the appropriate body to recommend action on Mr. Quatrevaux's budget request. Mr. Wittgraf asked the IG for a report comparing the size and scope of his office with other IG offices and explaining the differences between the interim operations proposal submitted previously and his current budget request. Mr. Dana stated his opposition to using Corporation reserves to meet the budget request.

Mr. Richardson presented two proposed budgets for FY 1993, a "freeze" budget and an operating budget [See attachment]. During discussion, Mr. Dana requested an analysis of LSC's staffing levels and actual expenditures for activities since 1980, and Mr. Wittgraf asked for a breakdown of \$1.2 million in carryover funds.

#### MOTION

Mr. Uddo moved to adjourn, and Mrs. Wolbeck seconded. [See transcript, p. 101]

#### VOTE

The motion passed on a voice vote, and Mr. Dana adjourned the meeting at 4:48 p.m.

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ATTACHMENT

	1993 =====	1994 =====
1992 Appropriation	9,774,000	9,774,000
1993 Increase	-0-	-0-
1992 Carryover	450,000	-0-
Timekeeping Money	300,000	-0-
Construction Allowance	300,000	-0-
Deferred Rent Incentive	860,000	-0-
FY 1993 Grant/Interest Income	300,000	-0-
FY 1994 Grant/Interest Income	-0-	300,000
1993 Carryover	-0-	-0-
	11,984,000	10,074,000

Mgt's Current Request	12,178,905
IG's Request Increase	250,000
Board Meetings	100,000
	12,528,905



**LEGAL SERVICES CORPORATION**

M E M O R A N D U M

TO: LSC BOARD OF DIRECTORS  
FROM: David L. Richardson, *dlr* Comptroller  
THROUGH: John P. O'Hara, President *JPOH*  
DATE: October 18, 1992  
SUBJECT: Fiscal Year 1993 Management and Administration Budget

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The proposed fiscal year (FY) 1993 Management & Administration (M&A) budget that was reviewed at the September 14, 1992, and the September 26, 1992, Audit and Appropriations Committee (the Committee) meetings has been revised.

Despite the funding sources that were discussed to finance the M&A budget, decreases to the budget had to be identified. The areas identified for elimination or reduction are:

- 1) a reduced travel schedule;
- 2) reduced use of consultants;
- 3) reduced employee development and training;
- 4) reduce the payment of employee reimbursable expenses for bar dues, CPA dues and other professional organizations;
- 5) discontinue the Benefax program;
- 6) print the annual report internally, therefore, saving outside printing cost;
- 7) reduce the quarterly newsletter to a semi-annual production;
- 8) eliminate the request for new staff in Office of Field Services; and
- 9) eliminate the Meritorious and Innovative Grant Program.

The funds that were discussed during the prior meetings that could aid in financing the M&A budget are:

FY 1992 Appropriation	\$9,774,000
FY 1992 Projected Carryover	<u>450,000</u>
	10,224,000
Program Development	300,000
Projected Construction Allowance	<u>300,000</u>
	10,824,000
Deferred Rent Incentive	860,000
FY 1993 Grant/Interest Income	<u>300,000</u>
	11,984,000

This leaves a shortfall of \$194,905 (\$12,178,905 minus 11,984,000).

Certain members of the board have expressed reservations about reprogramming the Program Development funds that have been committed for implementing timekeeping and have asked that other funding sources be identified.

There was also a suggestion that the FY 1993 Law School Clinics fund which totals \$1,254,000 could be a possible funding source. Other funding sources discussed were the contingencies in the Basic Field Programs \$60,966<sup>1</sup>, National Support \$111,793<sup>2</sup>, State Support \$49,824<sup>3</sup>, and \$42,857<sup>4</sup> in the Native American budget category. Because of the language of Senate Report 102-331, these funds are questionable as to their availability for reprogramming.

Other FY 1992 funds have been identified include the balance of the unused amounts that were set aside for the Native American, National Support and State Support meetings.

In reviewing this information, the members should note that we are not in a position to finalize a FY 1993 operating budget for M&A but, are merely seeking framework for continued operations. The amounts that are being considered as undesignated (uncommitted) carryover and the construction allowance funds are projections that will not be finalized until the financial records are closed for the year and the annual financial audit is completed.

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<sup>1</sup>FY 1992 Contingency (no increase)

<sup>2</sup>Projected FY 1993 Appropriation Level (FY 1992 Contingency \$109,601 with 2% increase)

<sup>3</sup>Projected FY 1993 Appropriation Level (FY 1992 Contingency \$48,847 with 2% increase)

<sup>4</sup>Projected FY 1993 Appropriation Level (FY 1992 Contingency \$42,017 with 2% increase)

LEGAL SERVICES CORPORATION  
 MANAGEMENT AND ADMINISTRATION  
 EXPENSES SUMMARIZED, BY DEPARTMENT

PROPOSED FREEZE BUDGET - FY 1993

BUDGET CATEGORY	BOARD OF DIRECTORS	EXECUTIVE OFFICES	OFFICE OF INSPECTOR GENERAL	GENERAL COUNSEL	OFFICE OF POLICY DEVELOPMENT	HUMAN RESOURCES/EO SERVICES	OFFICE OF FIN & ADMIN SERVICES	MONITORING AUDIT AND COMPLIANCE	OFFICE OF FIELD SERVICES	TOTAL BUDGET
PERSONNEL COMPENSATION	\$0	\$422,600	\$677,900	\$562,800	\$0	\$348,300	\$839,500	\$2,035,267	\$1,024,700	\$5,911,067
TEMP. EMPLOYEE PAY	0	0	17,600	27,535	0	20,000	19,350	0	8,000	92,485
PERSONNEL BENEFITS	0	80,300	143,800	117,670	0	314,800	178,000	427,406	216,000	1,477,976
CONSULTING	180,480	0	75,000	275,000	0	5,000	21,000	435,629	16,000	1,008,109
TRAVEL & TRANSPORTATION	175,215	43,200	79,000	16,000	0	7,500	13,000	386,658	25,500	746,073
COMMUNICATIONS	0	1,000	1,600	900	0	200	130,000	4,500	350	138,550
OCCUPANCY COSTS	0	0	1,000	0	0	0	2,584,070	23,000	0	2,608,070
PRINTING & REPRODUCTION	6,700	0	3,000	0	0	50	75,000	300	21,400	106,450
OTHER OPERATING EXPENSES	4,050	10,000	13,935	2,635	0	26,000	263,750	5,000	2,750	328,120
CAPITAL EXPENDITURES	0	0	5,000	0	0	0	41,000	0	0	46,000
OTHER	0	0	0	0	0	0	0	0	0	0
<b>TOTAL</b>	<b>366,445</b>	<b>557,100</b>	<b>1,017,835</b>	<b>1,002,540</b>	<b>0</b>	<b>721,850</b>	<b>4,164,670</b>	<b>3,317,760</b>	<b>1,314,700</b>	<b>12,462,900</b>

LEGAL SERVICES CORPORATION  
 MANAGEMENT AND ADMINISTRATION  
 EXPENSES SUMMARIZED, BY DEPARTMENT

PROPOSED BUDGET - 10/16/92

BUDGET CATEGORY	BOARD OF DIRECTORS	EXECUTIVE OFFICES	OFFICE OF INSPECTOR GENERAL	GENERAL COUNSEL	OFFICE OF POLICY DEVELOPMENT	OFFICE OF HUMAN RESOURCES/EO SERVICES	OFFICE OF FIN & ADMN SERVICES	MONITORING AUDIT AND COMPLIANCE	OFFICE OF FIELD SERVICES	TOTAL BUDGET
PERSONNEL COMPENSATION	\$0	\$422,600	\$677,900	\$562,800	\$0	\$348,300	\$796,850	\$2,061,054	\$984,600	\$5,854,104
TEMP. EMPLOYEE PAY	0	0	17,600	27,535	0	20,000	19,350	4,950	4,500	93,935
PERSONNEL BENEFITS	0	80,300	143,800	117,670	0	299,800	169,000	433,200	207,200	1,450,970
CONSULTING	140,320	0	75,000	275,000	0	5,000	21,000	404,056	3,000	923,376
TRAVEL & TRANSPORTATION	100,035	23,200	79,000	16,000	0	7,500	6,000	386,200	9,500	627,435
COMMUNICATIONS	8,000	1,000	1,600	900	0	200	130,000	4,500	350	146,550
OCCUPANCY COSTS	0	0	1,000	0	0	0	2,584,070	23,000	0	2,608,070
PRINTING & REPRODUCTION	8,500	0	3,000	0	0	50	70,000	300	13,400	95,250
OTHER OPERATING EXPENSES	14,045	9,400	13,935	2,635	0	15,100	263,750	500	13,850	333,215
CAPITAL EXPENDITURES	0	0	5,000	0	0	0	41,000	0	0	46,000
OTHER	0	0	0	0	0	0	0	0	0	0
<b>TOTAL</b>	<b>270,900</b>	<b>536,500</b>	<b>1,017,835</b>	<b>1,002,540</b>	<b>0</b>	<b>695,950</b>	<b>4,101,020</b>	<b>3,317,760</b>	<b>1,236,400</b>	<b>12,178,905</b>

**OPEN SESSION:**

- \* **REPORT ON LEASING OF CORPORATION'S FORMER HEADQUARTERS OFFICE SPACE**
- \* **HISTORICAL ANALYSIS OF CORPORATION'S EXPENDITURES OVER PAST TWELVE-MONTH PERIOD**
- \* **OFFICE OF THE INSPECTOR GENERAL OVERSIGHT COMMITTEE'S RECOMMENDATION ON THE FISCAL YEAR 1993 BUDGET OF THE OFFICE OF THE INSPECTOR GENERAL**

**CLOSED SESSION:**

- \* **GENERAL COUNSEL'S REPORT ON THE FISCAL YEAR 1993 BUDGET REQUEST OF THE OFFICE OF THE GENERAL COUNSEL**

**OPEN SESSION: (Resumed)**

- \* **CORPORATION'S PROPOSED FISCAL YEAR 1993 CONSOLIDATED OPERATING BUDGET**

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