

LSC Management Statement Regarding the OIG Report on Certain Fiscal Practices at LSC

September 26, 2006

The Office of Inspector General (OIG) released its Report on Certain Fiscal Practices at LSC on September 25, 2006. The report makes 11 recommendations and LSC Management has responded positively to each of them. Management is pleased to note the instances in which the report recognizes that LSC has improved its practices after issues have been identified and is also pleased to note the OIG's finding in the Executive Summary that LSC spending practices do not violate any laws. To the extent that LSC has not followed its own procedures, Management has pledged to improve its operations to insure that procedures are followed in the future. Additionally, even though LSC is not subject to most federal requirements, LSC Management is committed to reviewing relevant federal policies as recommended in the report and modifying comparable LSC policies where appropriate.

"LSC will adopt the recommendations made by the OIG in order to improve the fiscal management of the Corporation," according to Helaine M. Barnett, President of LSC. "I am pleased to note that the report clears LSC of any violations of the law and recognizes that the Corporation has already begun revising some policies and more strictly enforcing others."

There are eleven recommendations in the report, summarized below in italics. Management's responses follow each recommendation.

1. *LSC Management should consider lower-cost options for food in connection with Board meetings.*

Management has already taken steps to reduce costs and will comply with this recommendation.

2. *The LSC Board should consider holding its annual Board meeting at LSC headquarters.*

The Board voted unanimously at its September 22, 2006 meeting to hold its January 2007 meeting at the LSC offices.

3. *LSC should follow the federal policies with respect to first class or business class travel, and should ensure its policies and practices are consistent with its GSA contract obligations.*

LSC policy stipulates that only the President or the Inspector General may approve first class or business class travel. Federal policy provides some criteria by which a federal agency decides when to approve such requests, and LSC will add similar criteria to its policy.

4. *LSC should specifically address the use of chauffeured car services in its Administrative Manual by providing the limited circumstances when car services can be used and instituting prior approval requirements.*

LSC will do so.

5. *LSC should revise its Administrative Manual to provide guidance regarding the circumstances under which a lodging waiver request would be appropriate.*

LSC has already implemented this practice, and such changes will be included in the manual.

6. *LSC should enforce the requirements for pre-approval of lodging waivers.*

LSC has been rigorously enforcing its policy since July and will continue to do so.

7. *LSC should undertake a comprehensive review to bring LSC's spending policies and practices, particularly in the areas of travel, meals, meetings, and entertainment in line with those applicable to federal agencies.*

LSC has previously advised the House and Senate Appropriations Committees that it will undertake a review of LSC policies to see where they differ from federal policy and make modifications where appropriate.

It is worth noting that there are some instances in which LSC might not adopt federal policies, for example, if it would cost more money.

8. *The Board should require that it be advised of and specifically approve any policies and practices in those areas which are different from federal practice.*

LSC Management will brief the Board on any areas of difference between LSC policies and practices and federal policies and practices and the Board will determine how best to proceed.

9. *LSC should review its employment policies and practices to determine whether it can reduce its potential liability (from employment disputes).*

LSC is revising its Personnel Manual and will incorporate this review.

10. *LSC should review its settlement policies and practices to determine whether costs can be reduced and whether they are in the best interest of the corporation and appropriate expenditure of public funds.*

LSC has been doing this and will continue to do so.

11. *LSC should determine whether it is proper and appropriate to have a locality (pay) rate for the LSC President that is higher than the locality rate established for all other LSC employees.*

The LSC Board has scheduled a discussion of this for their annual meeting in January 2007.

There are portions of the report that create misleading impressions and require clarification. The references to the misleading statements are in italics below and the clarifications follow.

- A. *The report characterizes the President's travel home following an LSC business trip as personal travel (Executive Summary, page 1; page 13; and Appendix I, pages 29 and 30).*

LSC has authorized the LSC President to return directly home to her family following a business trip that ends on a Friday night or Saturday. The President's travel home following an out-of-town business trip that ends on a Friday evening or Saturday is business travel. As such, it qualifies for government rate purchases of tickets. The OIG's contention is that only the President's apartment in Washington, D.C., qualifies as her home even though her actual residence is elsewhere. The LSC Administrative Manual makes no reference to "official duty station," and states explicitly that "The cost of approved subsistence and other allowable travel expenses is reimbursable from the start of official LSC travel regardless whether the travel begins from the traveler's office or residence. Travel status terminates upon return to the traveler's office or residence, whichever occurs first." The Manual does not limit the definition of residence as the OIG suggests. In the past, other LSC employees have been reimbursed for travel to and from residences other than Washington, D.C., and the OIG did not review or reference those occasions. Although the practice is within LSC policy, the President has announced that, beginning April 1, 2006, she has requested and will continue to request reimbursement for her return from business trips on a Friday evening or Saturday, regardless of which residence she returns to, only in an amount equivalent to the cost of a government rate return to Washington, D.C., but no more than what she personally pays to return to her residence.

- B. *With respect to the President's trip to Ireland, the report questions the issuance of a first class ticket for the President's trip to Ireland and her flight on a foreign airline (Executive Summary, page 1; page 15; and Appendix I, page 33).*

The reservations for this trip were handled by the President's staff. It is not at all clear that her executive assistant was told by the travel agency or understood that she was authorizing either a full-fare coach ticket which could later be converted to a first class ticket, or approving an exemption from the Fly America Act, although the travel agency handling the reservation has a notation in its files that both were authorized. This appears to have been a miscommunication between staff and the travel agency. The President was unaware of either issue until they were raised during the course of this investigation and promptly committed to personally paying any reasonable estimate the OIG provides of the additional cost to LSC.

- C. *The report states that from October 2002 through May 2006, LSC spent approximately \$43,300 on coffee, tea, hot chocolate and related supplies for all LSC staff (page 19).*

This amounts to 50 cents per employee per day and is not inappropriate. LSC will look at ways to reduce costs.

- D. *The OIG questions LSC's judgment in paying for the President's expenses for travel related to outside organizations (page 1).*

It was the Chairman's judgment regarding reimbursement for the President's continuing service in organizations with which she was involved prior to her selection as President and which are specifically identified in her contract with LSC, that this was in LSC's best interests. The OIG's making a different judgment call does not make the original judgment call wrong or inappropriate. For the future, the President will only seek reimbursement from LSC for participation in the activities of the American Bar Association, in which LSC presidents have traditionally participated and been reimbursed.

In conclusion, after more than six months of intense scrutiny by the OIG with the full cooperation of Management, including the review of thousands of pages of documentation covering a period of up to 10 years, eleven recommendations have been made and LSC accepts all of them. Management is pleased to put this part of the investigation behind us and move forward with pursuing the Corporation's mission.