

LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

MEETING OF THE
AUDIT COMMITTEE

Saturday, January 31, 2009

1:03 p.m.

Legal Services Corporation
3333 K Street, N.W.
3rd Floor Conference Center
Washington, D.C.

COMMITTEE MEMBERS PRESENT:

Herbert S. Garten, Chairman
Thomas R. Meites
Frank B. Strickland, ex officio

OTHER BOARD MEMBERS PRESENT:

Thomas A. Fuentes
Michael D. McKay
Bernice Phillips-Jackson
Sarah Singleton

STAFF AND PUBLIC PRESENT:

Helaine M. Barnett, President
 Karen M. Dozier, Executive Assistant to the President
 Victor M. Fortuno, Vice President for Legal Affairs,
 General Counsel, and Corporate Secretary
 Mattie Cohan, Senior Assistant General Counsel, Office
 of Legal Affairs
 Katherine Ward, Executive Assistant, Office of Legal
 Affairs
 David L. Richardson, Treasurer and Comptroller, Office
 of Financial and Administrative Services
 Karen J. Sarjeant, Vice President for Programs and
 Compliance
 Charles Jeffress, Chief Administrative Officer
 Jeffrey E. Schanz, Inspector General
 Ronald "Dutch" Merryman, Assistant Inspector General
 for Audit, Office of the Inspector General
 Thomas Coogan, Assistant Inspector General for
 Investigations, Office of the Inspector General
 David Maddox, Assistant Inspector General for
 Management and Evaluation, Office of the Inspector
 General
 Laurie Tarantowicz, Assistant Inspector General and
 Legal Counsel, Office of the Inspector General
 John Constance, Director, Government Relations and
 Public Affairs Office
 Stephen Barr, Media Relations Director, Government
 Relations and Public Affairs Office
 Kathleen Connors, Executive Assistant, Government
 Relations and Public Affairs Office

Nancy Davis, WithumSmith+Brown
 Dave Karakashian, WithumSmith+Brown
 Linda Perle, Center for Law & Social Policy (CLASP)
 Don Saunders, National Legal Aid and Defenders
 Association (NLADA)
 Julie Clark, National Legal Aid and Defenders
 Association (NLADA)
 Julie Strandlie, Standing Committee on Legal Aid &
 Indigent Defendants (SCLAID), American Bar
 Association
 Les Jin, Standing Committee on Legal Aid & Indigent
 Defendants (SCLAID), American Bar Association

C O N T E N T S

OPEN SESSION	PAGE
1. Approval of agenda	4
2. Approval of the minutes of the committee's October 31, 2008 meeting	Deferred
3. Presentation of the FY 2008 Annual Financial Audit	5
Jeffrey Schanz, Inspector General Nancy Davis, Partner, WithumSmith+Brown David Karakashian, Senior Manager, WithumSmith+Brown	
4. Review of Form 990 for FY 2008	29
5. Consider and act on the establishment of procedures for the receipt, retention, processing, and resolution of complaints or expressions of concern regarding accounting, internal controls, and auditing issues	34
5A. Finance Committee issue re locality pay	24
6. Public comment	41
7. Consider and act on other business	41
8. Consider and act on motion to adjourn meeting	41

Motions: 4, 37, 41

1 PROCEEDINGS

2 (1:03 p.m.)

3 CHAIRMAN GARTEN: I'll call the meeting to
4 order of the audit committee, and thank you all for
5 being present.

6 The agenda item, the president pointed out to
7 me, has an incorrect date. It should be January 31,
8 2009. And with that change, I'll ask for a motion to
9 approve the agenda.

10 MOTION

11 MR. MEITES: So moved.

12 CHAIRMAN GARTEN: Are there any amendments?

13 MS. SINGLETON: It's amended.

14 MR. MEITES: I thought I couldn't. Yes. I'd
15 like to amend the agenda to add the item that was
16 referred to this committee by the finance committee.

17 I'd like to amend the agenda to add as item 5A
18 the matter that was referred to this committee by the
19 finance committee, to wit, the roughly \$250,000 item
20 that the finance committee discussed.

21 CHAIRMAN GARTEN: Okay. Any discussion?

22 (No response.)

1 CHAIRMAN GARTEN: If none --

2 MR. MEITES: The motion is adopted.

3 CHAIRMAN GARTEN: -- the motion is adopted.

4 MR. MEITES: We can't second it, so --

5 MS. SINGLETON: There's no second.

6 MR. MEITES: We can't. There's no second. Go
7 ahead.

8 CHAIRMAN GARTEN: Move for the approval of the
9 minutes of the --

10 MR. MEITES: Let's defer that to the next
11 meeting so we actually get that formally approved.

12 CHAIRMAN GARTEN: All right. We have a
13 request that it be deferred to the next meeting. If
14 there's no objection, we'll move forward then to item
15 3, presentation of the fiscal year 2008 annual
16 financial audit. And Jeff Schanz, Nancy Davis, David
17 Karakashian, are you all here? Would you come forward?

18 MR. SCHANZ: All present and accounted for,
19 Mr. Chairman.

20 CHAIRMAN GARTEN: Good. Would you proceed?

21 MR. SCHANZ: Jeff Schanz, Inspector General.

22 MS. DAVIS: Nancy Davis, partner with

1 WithumSmith+Brown.

2 MR. KARAKASHIAN: Dave Karakashian, senior
3 manager with WithumSmith+Brown.

4 CHAIRMAN GARTEN: Fine. Thank you for being
5 here. Jeff, would you begin the discussion and
6 presentation?

7 MR. SCHANZ: I'd be happy to, Mr. Chairman.

8 As the audit committee was fully engaged in
9 the corporate audit this year, I won't be telling you
10 anything that you don't know. But we did keep the
11 audit committee fully involved as we went through the
12 corporate audit.

13 We did identify for the corporate -- or for
14 the audit committee at a prior board meeting the
15 process we go through for selecting the corporate
16 auditor. And thankfully, we had Nancy Davis and her
17 team, who are very familiar with LSC, that performed, I
18 think, two prior corporate audits of the Corporation.
19 So they knew their way around.

20 In dealing with management, we were able to
21 get all the information we needed in a relatively
22 timely basis so that there were no hindrances in

1 obtaining accurate and objective information from the
2 Corporation, so that the CPAs -- who are the experts in
3 this field -- so that the CPAs could proceed with the
4 audit that was done on a timely basis.

5 CHAIRMAN GARTEN: Fine.

6 MR. SCHANZ: I believe you've all been
7 provided a copy of the corporate audit. Okay? And now
8 we can get into any of the particulars or any of the
9 questions that you had, or Nancy and her team can talk
10 about the process that was used.

11 CHAIRMAN GARTEN: I would call on you, Nancy,
12 to begin a discussion.

13 MS. DAVIS: I'm happy to be here today. We
14 have worked with you all several years now on the
15 corporate audit, and this is the first year that you
16 have had an audit committee in place. And as the IG
17 indicated, the audit committee has been fully engaged
18 in the process.

19 From the planning, from the signing of our
20 engagement letter, all the way through to the exit
21 conference, there's been a dialogue that I've had with
22 the chairman related to issues that have arisen during

1 the course of the audit.

2 And this is the first time that the board as a
3 whole has been represented throughout the entire audit
4 process. So rather than my appearing here to simply
5 report to you on the results of the audit, I'm able to
6 tell you that, you know, the audit committee has been
7 fully engaged, as the IG indicated. And I think that
8 that's been very refreshing. The communication has
9 gone very well.

10 The audit this year went smoothly. I am happy
11 to report that the Corporation has a clean audit
12 opinion on their financial statements for fiscal year
13 2008. In addressing prior year issues that were raised
14 in the audit, we found that, on the whole, that those
15 issues had been addressed.

16 And they are still in the process of
17 implementing a fixed asset software package, so that's
18 an ongoing process, but that management within LSC, we
19 have found, to always to the best of their ability, to
20 be very responsive as issues have been raised.

21 This year in the context of the audit, we also
22 audit the Corporation in compliance with Government

1 Auditing Standards, and as such, we have to do tests of
2 internal controls and compliance. And then we issue a
3 report which you find at the very back of the audit
4 report here, sometimes called the Yellow Book report.
5 It is a report that's required to be issued under
6 Government Auditing Standards.

7 It reports -- we are required to report any
8 issues, significant deficiencies, or material
9 weaknesses in internal control over financial
10 reporting, or any significant noncompliance or material
11 deficiencies in compliance that we have found.

12 This year we only had one issue to report in
13 this context, and it was a noncompliance issue as
14 opposed to an internal control issue. It related to
15 the question of whether certain workers that have been
16 hired by the Corporation should appropriately be
17 characterized as consultants as opposed to employees.

18 There was a very active discussion about it.
19 I gathered from the information we obtained that it had
20 been an internal discussion going on over a period of
21 months as to what was the proper treatment of these
22 individuals.

1 But nothing had been resolved as of the time
2 of the audit, so we recommended that this be something
3 that management aggressively pursue to the end that
4 they get a resolution to it, make a decision, document
5 that decision, and then obtain an outside opinion as to
6 these matters so that it's clear, should the IRS raise
7 the issue with you, that the Corporation has fully
8 vetted this and has documented their position.

9 MR. MEITES: I have a question about that.
10 Although it's not clear, I assume that these employees
11 were -- these people were classified as independent
12 contractors.

13 MS. DAVIS: Correct.

14 MR. MEITES: If they are reclassified, do we
15 face any overtime wage issues, any Social Security or
16 Medicare issues? And do you have an idea how much
17 exposure we would have if that happened?

18 MS. DAVIS: No, I don't. We were testing this
19 on a sample basis. The individuals that we were --
20 that we tested, that we looked at their contracts, they
21 had been people that had been former employees. They
22 were being hired for a short, very fixed period of time

1 over a few months, but the activities and the tasks
2 that they were being asked to do were similar or
3 identical to what they did as employees.

4 So we're not in a position to give you a
5 number in terms of that. It would require really
6 looking at the status of all of your consultants
7 because you do have legitimate consultants that work
8 for the Corporation.

9 MR. MEITES: My concern is if management --

10 CHAIRMAN GARTEN: I think, Tom, if I may --

11 MR. MEITES: Go ahead.

12 CHAIRMAN GARTEN: This is an open issue.

13 We're awaiting two reports, and management's response
14 has been that once those reports are received, they
15 will seek independent counsel, as you suggest in your
16 audit report.

17 So I think it would be premature.

18 MR. MEITES: No. I'm asking something -- I
19 want to make sure that if the conclusion is that they
20 should have been employees, that that doesn't fall in
21 the cracks, and that whatever adjustments are necessary
22 with regard to monies they have received is made.

1 Because if they become employees, they are entitled to
2 certain monies they did not receive, or monies paid on
3 their behalf.

4 MS. DAVIS: That's true. However, we found in
5 some cases the reason for some of the internal
6 discussion that went on was that their rate of pay that
7 they were being paid by the hour as a consultant
8 exceeded what they had been paid for the same job as an
9 employee.

10 MR. MEITES: Yes. I don't want to get into
11 the merits of the claim at all. I'm not --

12 MS. DAVIS: No, no. But I'm just saying that
13 yes, you would have to reevaluate it. But I think that
14 because they were paid other amounts, that it would --
15 it doesn't sound as dire as it --

16 CHAIRMAN GARTEN: I would suggest that pending
17 the reports and the advice of independent counsel, that
18 we await that information. And hopefully we'll have
19 this on our agenda for the next meeting.

20 MR. MEITES: That's fine. I just wanted to
21 make sure that this item doesn't get lost or --

22 CHAIRMAN GARTEN: But getting back to the

1 response that you received from management stating
2 basically what I've just said, you were satisfied with
3 that response?

4 MS. DAVIS: Yes, I am. I just believe that if
5 there has been an internal discussion, it just needs to
6 be brought to a point of conclusion and documented.

7 MR. SCHANZ: And if I may, Mr. Meites, there
8 is always the possibility of an IRS vulnerability,
9 depending on the pay structure.

10 MR. MEITES: Oh, that's fine.

11 MR. SCHANZ: Right. But we can't quantify
12 that.

13 CHAIRMAN GARTEN: All right. Do you have
14 anything else you would like to report you may have
15 questions from committee and board members?

16 MS. DAVIS: There were not any other findings
17 that we found in the context of the audit itself that
18 we would categorize as a significant deficiency or a
19 material weakness. However, we did issue a letter to
20 management that identified a couple of other items that
21 I'll have Dave go through briefly with you, if you
22 like.

1 CHAIRMAN GARTEN: Please.

2 MR. KARAKASHIAN: As Nancy mentioned, we did
3 issue a letter to management which discusses two items
4 that we noted during the audit that didn't rise to the
5 level of a control deficiency or significant deficiency
6 that would have had to have been reported in our audit
7 reports. But these are just things that we want to
8 make management aware of. These are opportunities for
9 either strengthening some controls or operating
10 deficiencies.

11 These both relate to documenting certain
12 control activities that are performed by LSC. The
13 first one relates to the documentation of the grantee
14 evaluation process.

15 In our testing of 32 grantee evaluations, we
16 noted that the documentation was not complete on seven
17 of the grantees, especially relating to part 3, the
18 evaluation form, as well as the final recommendation
19 that OPP makes regarding the individual grantee
20 application.

21 The second area that we identified --

22 CHAIRMAN GARTEN: Just one minute. Sarah?

1 MS. SINGLETON: Before you leave that first
2 area, is the information that was incomplete, is that
3 something that someone at LSC should fill out or
4 something that a grantee should have filled out?

5 MR. KARAKASHIAN: This is something that
6 someone at LSC would have filled out when they were
7 doing the evaluation of the grantee's application.

8 CHAIRMAN GARTEN: Continue.

9 MR. KARAKASHIAN: Okay. The next area has to
10 do with the Corporation's credit card statements and
11 the processing of those statements.

12 LSC does have a process in place where the
13 credit card statements are reviewed by the accounting
14 manager, and normally she would initial her review that
15 the credit card statement has been reviewed and
16 documented. However, we found that four of the 36
17 statements that we looked at didn't have evidence of
18 that review.

19 In addition, LSC has a procedure where,
20 because the accounting manager is also a cardholder,
21 then the comptroller will review the statements for the
22 accounting manager. And in that case, there were two

1 out of the 12 statements that we reviewed didn't have
2 the documentation indicating that those statements were
3 approved.

4 There was nothing unusual about any of the
5 purchases or anything surrounding those transactions.
6 It was just an area where a control procedure wasn't
7 documented adequately.

8 So these are just two areas that we think LSC
9 could improve the documentation of their controls.

10 CHAIRMAN GARTEN: And you brought that to the
11 attention of management?

12 MR. KARAKASHIAN: Correct. These items were
13 both discussed with management during the course of the
14 audit.

15 MR. MEITES: I have a question for Ms. Davis.
16 I was thumbing through looking for the page. I have a
17 -- want to raise a question with regard to item 2 on
18 page 25.

19 If I read this item correctly -- it's called
20 Custodial Credit Risk Deposits -- it states that
21 approximately \$12.3 million of -- I'm sorry, as of --
22 yes, of LSC's bank balance was exposed to what you call

1 custodial credit risk.

2 And if you read farther down, that is expanded
3 to be, in a line heading, "Uninsured and collateral
4 held by pledging bank's trust department not in LSC's
5 name."

6 If this bank were to fail, we would lose the
7 \$12 million. Isn't that right?

8 MS. DAVIS: That's correct.

9 MR. MEITES: Which troubles me. I have no
10 idea what else to do with this \$12.3 million, but I
11 would feel a lot better if it weren't at this risk of
12 disappearing.

13 So I ask you for suggestions or management for
14 suggestions, but -- or maybe there's no answer. But I
15 would like to find out more about this risk and whether
16 it can be mitigated.

17 CHAIRMAN GARTEN: David, why don't you come
18 forward.

19 MR. RICHARDSON: Yes, sir. Again, for the
20 record, I'm David Richardson, the treasurer and
21 comptroller of the Corporation.

22 The bank that we're dealing with here, we

1 actually have two banks. One bank sweeps all the money
2 under \$90,000 into a T-bill and registers it in LSC's
3 name.

4 The other bank, which we are tied to because
5 of the financing of the building, does not do that.
6 They sweep it to a T-bill, but they sweep it to a
7 T-bill in the bank's name.

8 We have talked to them about changing that.
9 As of this point, they have refused to do that. They
10 have no means, they tell us, of doing that. But again,
11 we are going to end up discussing with them again how
12 this can be corrected.

13 Last year we had a discussion with our bank
14 official who oversees our accountant, and they were
15 going to work on something. But then, when it came
16 right down to it, they could not change their
17 procedure.

18 In this time of, again, bank failures and
19 things going on, we're going to explore it again.

20 MR. MEITES: I have a question. What is the
21 bank?

22 MR. RICHARDSON: Bank of America.

1 MR. MEITES: All right. Vic, can you come
2 forward? The arrangements with regard to the building
3 predated this board, so I really know nothing about
4 them.

5 In your view, Vic, in terms of perhaps
6 improving our position vis-a-vis this issue, do you
7 think that your involvement would be helpful, given
8 your knowledge of the transaction?

9 MR. FORTUNO: I'd certainly be happy to look
10 at it. I think that what the case may be -- Dave, you
11 may know better -- but I think that it may be that the
12 Corporation committed to a banking relationship with
13 this bank in return for a really good financing package
14 for the purchasing of the building.

15 Is that about right, David?

16 MR. RICHARDSON: That is correct.

17 MR. FORTUNO: So we may be -- I'd have to look
18 at the agreement and see what it says. But I assume
19 that we are locked in by agreement. Now, the question
20 is whether we can get out of it and under what
21 circumstances, and certainly I can --

22 MR. MEITES: Or modify it so that we have more

1 protection.

2 MR. FORTUNO: Yes.

3 MR. MEITES: Now, this is not an area I
4 practice in. But I would hope that if you both look at
5 it before our next meeting, we could get some
6 clarification.

7 MR. FORTUNO: Sure. Absolutely.

8 CHAIRMAN GARTEN: I would assume that there's
9 a dollar amount mentioned in that agreement as to what
10 they expect to be on deposit. But you ought to check
11 that out.

12 MR. FORTUNO: Oh, absolutely.

13 CHAIRMAN GARTEN: And if you get back to me,
14 we'll review it together.

15 MR. FORTUNO: Yes.

16 CHAIRMAN GARTEN: And although it's in the
17 bank's name, have they indicated to you -- it's a trust
18 department you're dealing with?

19 MR. RICHARDSON: That is correct, sir. I was
20 going to --

21 CHAIRMAN GARTEN: And you might also look into
22 the situation of the fact that notwithstanding it being

1 in their name, they're holding it as a trustee for us.

2 And if that's the case, at least in Maryland, and D.C.
3 follows Maryland law, it would be, notwithstanding the
4 name not being on the account, a trust account and we'd
5 have priority on those funds.

6 But I think this all raised a good question,
7 and we appreciate the fact that you've pointed it out
8 to us in your audit report.

9 MR. RICHARDSON: If I could also add, I've
10 actually had that conversation with our relationship
11 manager, as they call them, and she assures me that
12 that is in fact true. We get a statement daily with
13 how much our account is; that we could present that
14 statement, and we would be first in line to get that
15 money redeemed.

16 CHAIRMAN GARTEN: We ought to get this
17 clarified and have a legal opinion on it.

18 MR. FORTUNO: Absolutely.

19 CHAIRMAN GARTEN: There was -- David, do you
20 have anything further to report to us?

21 MR. KARAKASHIAN: No. That was all I had.

22 CHAIRMAN GARTEN: All right. Well, let me see

1 if we can get some clarification on a matter that the
2 board has shown interest in as well as our committee.
3 And Nancy, would you go over the background of the
4 various meetings that you have had with the audit
5 committee and with management in arriving and getting
6 started on this work?

7 MS. DAVIS: This year we issued an engagement
8 letter to the audit committee that explained the scope
9 of the audit -- it was to the IG as well -- the scope
10 of our audit, what our responsibilities are, what
11 management's responsibilities are, so that this was
12 fully made known at that time.

13 We met management, the inspector general
14 staff, and the audit committee and ourselves for an
15 entrance conference. Discussed the issues. Discussed
16 the planning, the execution, the target dates and
17 deliverables for the audit, provided a list of
18 documentation that we were going to need for the audit,
19 and then addressed any questions that any of the
20 parties had.

21 So then as the audit unfolded, Dave primarily,
22 as being in charge of the audit, was working with Dave,

1 the two Daves together. And then as issues were raised
2 and we found that we were at a point of discussion
3 concerning the consultant issue, then I brought this
4 issue back to the chairman of the audit committee for
5 discussion.

6 And he requested copies of all the
7 documentation we had obtained from management so that
8 he could review it, and we had further discussions
9 along those lines.

10 Then at the end of the audit we had an exit
11 conference, to which the chairman of the audit
12 committee, the president of LSC, management, the
13 inspector general's staff all attended. We went over
14 the audit report in draft at that time to discuss any
15 of the issues and make sure that we all were on the
16 same page.

17 Management was in the process of drafting
18 their response to the finding, which we then
19 incorporated into the report. So that sort of closed
20 out the official aspect of the audit.

21 CHAIRMAN GARTEN: David, you were present at
22 that initial meeting also and the exit meeting?

1 MR. KARAKASHIAN: That's correct. I was
2 present at both those meetings.

3 CHAIRMAN GARTEN: Yes. The issue that has
4 arisen I've asked our David to give the background on
5 for the benefit of the committee and the board.

6 MR. RICHARDSON: Okay. When we were putting
7 together the original temporary operating budget, my
8 staff and I worked together toward getting it ready.
9 But there was not a final review of the management and
10 now grants oversight budget until after it had been
11 presented to the finance committee.

12 And at that point, when I went through and
13 reviewed it a time, I found that there was a number of
14 employees whose budget for the salaries regarding
15 locality pay had been deleted inadvertently. It
16 affected 13 employees. The amount was -- actually, it
17 affected 17 employees, and it was \$220,000,
18 approximately the amount that we had to adjust our
19 budget.

20 It was an occurrence where we have a procedure
21 in place as far as how to do it, but it was not in
22 writing. And in explaining it to different staff in

1 the reviews, they didn't follow all the steps. When I
2 looked at it again, I found the errors, reported it to
3 management, and then we had to of course come back to
4 the board and ask for an additional adjustment to the
5 budget, which we made in our November meeting.

6 CHAIRMAN GARTEN: All right. Thank you. Now,
7 I've asked for this because I had a specific
8 recollection that at our initial meeting, you inquired
9 as to whether anything unusual, or words to that
10 effect, had occurred that we should bring to your
11 attention. And I specifically recalled mentioning this
12 to you all.

13 So my question is: Was it considered? Or if
14 it wasn't considered, is there anything material that
15 would change the expression of your opinion?

16 MS. DAVIS: I have to admit and apologize that
17 I did not remember that at the time I responded to Mr.
18 McKay this week when he approached me about it. So
19 that was -- and it was not in our writeup concerning
20 the meeting.

21 However, in the context of the audit, it
22 certainly was an issue that came up because the request

1 for the reprogramming of the funds to cover that
2 deficit was part of that, and we looked at that.
3 However, the new procedures that have been put in
4 writing now by management we just received yesterday,
5 so I think there was some miscommunication here.

6 However, we have not found in previous years
7 -- this was an anomaly, if you will, in that these
8 procedures had been followed in prior years. So last
9 year was an exception to the rule. And so we had never
10 seen this in prior years in audits.

11 CHAIRMAN GARTEN: Sarah?

12 MS. SINGLETON: Did I understand you to say
13 you have looked at the procedures now that were put in
14 place to keep this from happening?

15 MS. DAVIS: No. We just received the copy of
16 the written procedures yesterday.

17 MS. SINGLETON: So you have not had a chance
18 to look at them?

19 MS. DAVIS: I've read through them. But in
20 terms of actually doing any procedures to follow them
21 through or do a walk-through, those procedures we have
22 not.

1 MS. SINGLETON: So are you able to give us an
2 opinion as to whether or not those procedures seem
3 adequate? Or would you need to do a walk-through
4 before you could do that?

5 MS. DAVIS: No. On the surface they appear
6 adequate. I think that as we reported with the
7 management letter items, some of the problems that come
8 up is not that LSC doesn't have good internal controls,
9 but sometimes circumstances happen where they may not
10 be followed or they might not have been documented as
11 those two management letter items indicated.

12 I think a similar situation occurred with the
13 budgetary shortfall. But based on my review of these
14 procedures, I believe that they would be adequate to
15 ensure that this wouldn't be repeated.

16 MR. KARAKASHIAN: The only thing I would add
17 on that is if these procedures were followed, we'd want
18 to see some kind of documentation that the procedures
19 were actually performed, kind of similar to the two
20 management letter findings that we had, making sure
21 that someone is either signing off or initialing
22 something or some kind of documentation that those

1 procedures were actually performed.

2 MR. MEITES: We should make sure that we get a
3 copy of the written procedures that you have.

4 MR. RICHARDSON: Absolutely.

5 MR. MEITES: Good. Well, I think that where
6 we're at, or at least where I'm at, is that we can
7 report to the board that this happened. We can
8 describe what we've heard about how it happened.
9 Between now and the board meeting, we'll read the
10 written procedures and at least be able to give the
11 board our view of -- just like Nancy did -- whether it
12 looks like it's enough.

13 But what I would like to assure myself is that
14 Nancy will sit down with Dave and make sure you
15 understand it, and the Inspector General looks at it
16 and makes sure he understands it, and both of you are
17 satisfied that it does what it's supposed to do.

18 MS. DAVIS: Certainly.

19 CHAIRMAN GARTEN: Will you remain here at the
20 board meeting?

21 MS. DAVIS: I can if you'd like me to.

22 CHAIRMAN GARTEN: Thank you. I think it would

1 be a good idea if you were. There may be additional
2 questions posed, and we may be missing one board member
3 here.

4 All right. We thank you very much. Anything
5 you want to add, Jeff?

6 MR. SCHANZ: Yes. You read my mind. I would
7 like to commend Dutch for overseeing the process. What
8 we did not mention in this presentation is the
9 Inspector General, not personally but the office, went
10 and reviewed the working papers for the corporate
11 auditors. So there is a level of internal control over
12 the process that we engage in.

13 I would also like to advise that this was the
14 first corporate audit that I've been through with LSC,
15 and I appreciated the transparency and particularly the
16 efforts of the audit committee to give us a sounding
17 board on some of the issues that surfaced.

18 CHAIRMAN GARTEN: Thank you. All right. I
19 look forward to you remaining if you can.

20 The next item -- and Nancy, you may be called
21 upon on this one, too -- we've been supplied with a
22 copy of the 990 form, which I was familiar with until I

1 saw the current year one. And you have -- you are
2 shown as the preparer of it, and you've signed it, so
3 you must be satisfied with it.

4 MS. DAVIS: Well, I have not yet signed it.
5 This is a draft copy of the 990 that we issued to
6 management for their review.

7 CHAIRMAN GARTEN: All right. Well, you gave
8 us a preview of this about a year ago assist o what we
9 would be encountering on this new form.

10 MS. DAVIS: This is not the new form.

11 CHAIRMAN GARTEN: It isn't?

12 MS. DAVIS: No. You all will be required to
13 submit the new 990 for year fiscal 2009 audit, and --

14 CHAIRMAN GARTEN: How much more information
15 will be on the new one?

16 MS. DAVIS: Quite a bit more. There's lots of
17 governance questions. There's a lot of other issues
18 that will be picked up in it. So yes, it'll be more
19 comprehensive.

20 CHAIRMAN GARTEN: All right. And our staff
21 will be prepared to give you the information you need
22 for next year's return?

1 MS. DAVIS: I'm sure the answer to that is
2 yes.

3 (Laughter.)

4 MR. SCHANZ: I've been doing a lot of reading
5 on this and going through the new 990. There is a
6 great deal more information dealing with employee
7 salaries, donations, different issues that we're
8 involved with.

9 I would like to mention at this time you will
10 notice as you're looking at this that we have to report
11 officers and directors' salaries. We report the
12 attendance fees that we pay you. You have also been
13 asked to provide us with how much time you're spending
14 on the issues.

15 Of the ten board members, we have seven who
16 submitted, three who did not. So what I have done is
17 taken an average, knowing what meeting you're involved
18 with by the payments that were made.

19 But we do need to get a little better
20 recordkeeping as to how much time is being spent on LSC
21 activities because that is one of the requirements of
22 the job. We just can't put "Time as needed" or

1 "However much is needed." You can't put "40-plus." So
2 we try to average it to be as close as possible based
3 on the information that we do have. But we've asked
4 that you present us more information in the future.

5 CHAIRMAN GARTEN: Should the return where -- I
6 give exact hours and fractions, and I'm sure others do
7 the same, because that's in the nature of our practice.

8 But should you indicate estimated with respect to the
9 ones that -- where we've done that?

10 MS. DAVIS: I'm not sure I understand the
11 question.

12 CHAIRMAN GARTEN: Well, some of the
13 individuals have not submitted their time records. And
14 they're on the form, and it doesn't say "Estimated."
15 It just says a flat number of hours.

16 MS. DAVIS: Right. For the purpose of this
17 current 990, that is the way that that's generally been
18 handled without exact time records. But going forward
19 in 2009 -- I think that's what Dave is indicating, that
20 better records need to be kept for that purpose.

21 CHAIRMAN GARTEN: All right. So David, I
22 think you ought to get a memo out to the members of the

1 board reminding them.

2 MR. RICHARDSON: Okay. We will do that.

3 MR. MEITES: In defense of the IRS, I had
4 bridled at this requirement because I thought it was
5 really none of their business how much time I spent.
6 But I now understand it's tied to compensation.

7 This is a rough check. Apparently IRS wants
8 information so they can get a rough check whether a
9 not-for-profit board member's compensation is somewhat
10 related to the time spent.

11 MS. DAVIS: Right. There's excess
12 compensation issues.

13 MR. MEITES: And now that I understand the
14 reason for the inquiry, I don't feel it's as invasive
15 and burdensome as I did before. So I support the
16 effort to keep good track of our time.

17 MS. DAVIS: Well, they just did in this month
18 finalize the new 990, and there's about 3- to 400 pages
19 of instructions that come with how to complete it. So
20 in the first year of implementation, the organizations
21 that have a December 31, 2008 fiscal year end are the
22 first ones to be eligible to do this.

1 And so the smaller organizations will be able
2 to have a phased-in implementation, but the larger
3 organizations such as LSC will implement it in their
4 first year.

5 CHAIRMAN GARTEN: Okay. Any other questions?

6 (No response.)

7 CHAIRMAN GARTEN: Thank you very much.

8 The next item is consider and act on the
9 establishment of procedures for the receipt, retention,
10 processing, and resolution of complaints or expressions
11 of concern regarding accounting, internal controls, and
12 auditing issues.

13 And the proposed procedure is on page 24 of
14 the material. We have reviewed this. And I'll ask for
15 a motion.

16 MR. MEITES: Well, I have one -- who is the
17 originator of this? Charles?

18 Charles, the only issue that I have --

19 CHAIRMAN GARTEN: Well, why don't we get the
20 motion on the floor and then we'll have the discussion.

21 MR. MEITES: All right. Well, I move that we
22 recommend to the board -- does the board act on at

1 this? I'm not sure they do. This is our committee's
2 form or procedure. So I think we can decide this
3 ourselves.

4 Well, I move we adopt -- well, no. I don't to
5 make a motion.

6 CHAIRMAN GARTEN: Is that correct?

7 MS. SINGLETON: It goes in the employee
8 handbook, which was adopted by the whole board.

9 CHAIRMAN GARTEN: Yes. I think so.

10 MR. MEITES: Well done. All right. Well,
11 before I make a motion, I want to ask -- I have an
12 issue with step 6. I don't want to move its approval
13 when I have a question that I think a change might be
14 necessary.

15 Step 6 says that the committee will resolve
16 all complaints filed with it either by closing or
17 referral or recommendation for action within 60 days of
18 receipt or at the next scheduled board meeting,
19 whichever is later, and so on.

20 There is no provision here for the complainant
21 to be notified of the resolution. And I think we need
22 to add in step 6 a phrase to the effect, "and the

1 complainant shall be promptly notified of that
2 resolution."

3 MR. JEFFRESS: Certainly you can do that, Mr.
4 Meites. Step 7 assigns that responsibility of the
5 notification to the ethics officer, who receives the
6 report of the committee's action. If you'd rather the
7 committee notify the complainant directly, the
8 committee can do that.

9 MR. MEITES: Well, that's following board
10 action. But if there's no action taken, as far as I
11 understand this, it doesn't reach the board, so that a
12 complainant whose complaint is no action would not
13 receive -- at least I didn't read it as receiving the
14 notice under section 7. Now, maybe I'm reading it
15 incorrectly.

16 MR. JEFFRESS: If the --

17 CHAIRMAN GARTEN: And what he's referring to
18 is the closing --

19 MR. JEFFRESS: Right. I understand.

20 CHAIRMAN GARTEN: -- by the committee itself.

21 MR. JEFFRESS: Right. Step 3 allows the -- if
22 the committee doesn't act on it, for the chairman to

1 refer the complainant to a more appropriate area to
2 pursue it. But if the committee considers it and then
3 does not recommend board action, I believe you're
4 right. I believe we need to add something.

5 MR. MEITES: I think it appropriate there be a
6 letter from Herb saying, thank you for your complaint.

7 We reviewed it, and whatever else Herb wants to say
8 about it. So there's a --

9 CHAIRMAN GARTEN: Where do you want that
10 inserted?

11 MR. MEITES: I think -- Charles, do you think
12 that would go in step 6 or step 7?

13 MR. JEFFRESS: I think step 6 would be
14 perfect.

15 M O T I O N

16 MR. MEITES: Subject to that change, I move
17 that we recommend adoption of this.

18 CHAIRMAN GARTEN: All right. Do you get the
19 essence of the change we're recommending?

20 MR. JEFFRESS: Yes, Mr. Chairman. I'm
21 assuming that what you're saying is if the committee
22 closes a complaint without action, we want to --

1 CHAIRMAN GARTEN: The chair shall notify --

2 MR. JEFFRESS: -- provide that the complainant
3 gets notified. Right.

4 CHAIRMAN GARTEN: All right. So we'll be
5 ready to give it, with that amendment, to the board.

6 All right. Is there any further discussion on
7 this?

8 MS. PHILLIPS-JACKSON: I have a question on
9 this.

10 CHAIRMAN GARTEN: Yes?

11 MS. PHILLIPS-JACKSON: Would the full board be
12 made aware of the complaints in the --

13 CHAIRMAN GARTEN: The answer is, if it's
14 closed, you wouldn't be.

15 MS. PHILLIPS-JACKSON: No? So how would we
16 know when someone has a complaint? Will we request the
17 transcripts? Are we entitled to know?

18 CHAIRMAN GARTEN: I guess legally, any board
19 member is entitled to any information. Let's get
20 counsel here.

21 MR. FORTUNO: I think that yes, if a board
22 member requests it, they would be entitled to get it.

1 I understood the question to be more are they notified
2 on a routine basis, and I'd defer to Charles on the
3 process.

4 But in terms of is a board member entitled to
5 it if they request it, the answer is yes.

6 MR. JEFFRESS: Mr. Chairman, one way that many
7 other audit committees handle this when they do get and
8 receive and pursue complaints is to have an annual
9 report, essentially, to the full board on the number of
10 complaints received and the disposition of those
11 committees.

12 It wouldn't be a part of the processing of any
13 individual complaint, but it is something that in
14 discussions with Jeff Schanz, the IG, he and I thought
15 we would recommend to the committee that you add to
16 your charter that you have an annual -- or in your
17 annual report that you provide a record of the
18 complaints received and the disposition thereof.

19 That wouldn't provide a copy of any individual
20 complaint unless a board member specifically asked for
21 it. But it would give the board a sense of what the
22 committee is doing.

1 CHAIRMAN GARTEN: Isn't the background on this
2 to the effect that this gives the employee an
3 opportunity to go to an independent committee and not
4 get involved with the management or the other
5 procedures set forth in the employee manual? Is that a
6 fair statement?

7 MR. JEFFRESS: That's right, Mr. Chairman.
8 The committee wanted some way outside of the other
9 procedures for the employee to come to the board.

10 CHAIRMAN GARTEN: At the option of the
11 employee. All right. So with that -- has that
12 answered your question? Good.

13 All right. Any other questions? Comments?

14 (No response.)

15 CHAIRMAN GARTEN: All right. As far as a vote
16 is concerned, it passes.

17 MR. MEITES: It does.

18 CHAIRMAN GARTEN: Okay. I like the two-person
19 committee procedure.

20 (Laughter.)

21 CHAIRMAN GARTEN: We're not getting you
22 involved, Frank. You have no vote.

1 MS. SINGLETON: What are you going to do when
2 the two of you disagree?

3 MR. STRICKLAND: Well, I'm an ex officio
4 member, but I have elected to keep my distance from the
5 audit committee.

6 CHAIRMAN GARTEN: Not to vote. All right.

7 With that, do we have any public comment? If
8 so, please come forward.

9 (No response.)

10 CHAIRMAN GARTEN: Seeing and hearing none,
11 I'll entertain a motion to adjourn.

12 MR. MEITES: So moved.

13 CHAIRMAN GARTEN: All right. Seconded. Thank
14 you very much.

15 (Whereupon, at 1:44 p.m., the committee was
16 adjourned.)

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