

ORIGINAL

LEGAL SERVICES CORPORATION
AUDIT AND APPROPRIATIONS COMMITTEE

Meeting

June 25, 1991

2:00 p.m.

MARRIOTT SUITES
801 North St. Asaph Street
Alexandria, Virginia 22314

Board Members Present:

Howard H. Dana, Jr., Chairman
George Wittgraf
J. Blakeley Hall
Jo Betts Love
Jeanine E. Wolbeck

Staff Present:

David Martin, President
Patricia Batie
David Richardson

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P R O C E E D I N G S

1
2 CHAIRMAN DANA: I call this meeting to order. This
3 is the meeting of the Audit and Appropriations Committee.
4 It's being held on June 25, 1991. I've apologized to the
5 prospective auditors that are waiting outside.

6 The reason we are starting at 2 o'clock and not 9
7 o'clock or 1 o'clock is because the House Judiciary Committee
8 has been taking up our reauthorization bill, and some of us
9 wanted to be there. So we've imposed on staff, and I
10 apologize. Could I have a motion to approve the agenda?

11 MS. WOLBECK: I so move.

12 MR. DANA: Is there a second?

13 MS. LOVE: Second.

14 CHAIRMAN DANA: All those in favor say aye.

15 (Chorus of ayes.)

16 CHAIRMAN DANA: It's a vote. Actually, there is
17 -- the chairman of the board is ex-officio member, and for
18 these purposes I'm adding anyone else who wants to serve on
19 the committee.

20 MR. MARTIN: Blakeley, you're on the committee.

21 CHAIRMAN DANA: You're on the committee. Do we have
22 a motion on the minutes of the March 24 draft minutes? They

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1 are at pages 1 through 5 of the book, 6 of the book. I've
2 read them and they seem to be all right.

3 MS. WOLBECK: I move that they be accepted.

4 CHAIRMAN DANA: Is there a second?

5 MR. WITTGRAF: Second.

6 CHAIRMAN DANA: Hearing no discussion, all those in
7 favor say aye.

8 (Chorus of ayes.)

9 CHAIRMAN DANA: Opposed.

10 (No response.)

11 CHAIRMAN DANA: It's a vote. This time we're going
12 to turn to item 3 on the agenda, which is a status report on
13 the selection of independent auditors. Mr. Richardson, could
14 you, for the record, report to us what we have done to get us
15 to this point?

16 MR. RICHARDSON: Yes, sir Mr. Dana. The process
17 started with the selection of ten audit firms to get a
18 statement of qualifications. Once that process started, we
19 had one firm who asked to be included, which we did include,
20 so we now have 11 firms that we've contacted.

21 Of the 11 firms, only seven responded with the
22 statement of qualifications. We established an in-house

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1 committee of professionals from the audit division and Office
2 of Monitoring Audit and Compliance, also from the Grants and
3 Budget division and OFS.

4 We also had an attorney on our committee, and then
5 myself and the accounting supervisor from the controllers
6 office. The seven qualifications were reviewed by the
7 committee. Of the seven, we asked five people, five firms, to
8 come in for a bidders conference.

9 We met with each of the firms; we answered their
10 questions; we gave them last year's audit work papers that we
11 had done internally; we showed them the schedules that were
12 completed; we gave them the financial statements, and we just
13 sort of opened it up for a round-robin discussion between the
14 firms that were there.

15 At this time, they have, of course, submitted their
16 bid, and of the five companies that did submit bids, there are
17 four that are present today for this committee to interview.

18 CHAIRMAN DANA: And the fifth one you found to be?

19 MR. RICHARDSON: The fifth firm, their fee was
20 substantially higher than the four remaining. So based on the
21 fee alone, I contacted them this morning, and they are not
22 being considered for this audit.

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1 CHAIRMAN DANA: Fine. Thank you. I understand
2 we're going to be talking to them in the order of
3 GrantThornton, Pete Marwick, Koopers & Lybrand and
4 Mitchell/Titus; is that correct?

5 MR. RICHARDSON: Actually, on the second page, there
6 is a listing of the times that we had originally scheduled the
7 audit firms. GrantThornton will be first, followed by
8 Mitchell/Titus, Koopers & Lybrand, with Pete Marwick being
9 last.

10 CHAIRMAN DANA: Fine. And if you
11 wouldn't mind, unless there are any questions from the
12 committee, I think we should get right at it, since we're so
13 late.

14 PRESENTATION OF CHRISTL M. KASLER, HARVEY J. BERGER,

15 SHEILA L. CASEY; GRANTTHORNTON ACCOUNTANTS

16 First, again, I want to apologize for our starting
17 so late, and I understand that your fellow bidders are outside
18 waiting to get in here so they can get back to work. We have
19 some questions we'd like to ask of you, but first, if you
20 would like to make a statement or say something to us by way
21 of introduction, that would be appreciated.

22 MS. KASLER: Thank you very much. This is Harvey
Berger. He is a CPA and an attorney, and he takes care of all

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1 the tax issues our not-for-profit clients in the office have.

2 This is Sheila Casey. She's an audit manager and
3 spends a good part of her time with exempt organizations, and
4 I'm Christl Kasler, and I'm an audit partner, and I spend all
5 my time with exempt organizations.

6 I'm very pleased to be here, and we gave you a
7 little booklet and have just a few things that we'd like to
8 share with you before we answer your questions.

9 Before we came here, we asked ourselves the
10 question, what is Legal Services likely to want from its
11 public accounting firm? When I was thinking about that, I
12 envisioned at least two groups to have different expectations
13 of an accounting firm, but if I turn around and look behind
14 me, I think there are more groups here than I had even
15 envisioned.

16 I have been thinking of the board and what the board
17 expects, and we believe that the board would expect the
18 accounting firm to be supportive to the board in discharging
19 its responsibilities, in terms of oversight and public trust.

20 There's also management, who has an interest in the
21 public accounting firm, because it needs to work with the
22 public accounting firm. It expects us to understand the

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1 accounting system, to work efficiently, and to, hopefully, be
2 easy to get along with.

3 So there are some competing interests here, and we
4 believe we can meet them both, because we work with a lot of
5 exempt organizations. About 20 to 25 percent of our business
6 here in Washington is with exempt organizations.

7 We would staff the job appropriately. That means we
8 would staff this job like we would staff any commercial job,
9 properly organized so there is a manager and a senior and
10 entry-level people that are properly supervised that will know
11 your business and that will readily understand what an exempt
12 organization is all about.

13 We think we can meet all your deadlines. We have
14 discussed potential deadlines with management, and we're
15 certainly very flexible in adjusting that if you, as the
16 board, has any different ideas. Harvey is going to tell you a
17 little bit about our expertise here in Washington, and Sheila
18 is going to tell you just a little bit about our audit
19 approach, and then we'd be very happy to answer your
20 questions.

21 MR. BERGER: In the Washington area, as Christl
22 mentioned, exempt organizations are about 25 percent of our

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1 practice. It's a major focus for all of us. We have about 15
2 professionals in the office who specialize in exempt
3 organizations.

4 We do have a wide range in clients in Washington,
5 from clients that are national in scope that are known
6 nationally, that have reputations and members from all around
7 the country. We also have a number of clients that have grant
8 oversight responsibilities, as Legal Services Corporation
9 does, in the sense that they make grants and have to make sure
10 the money is being spent.

11 We also have a lot of clients that receive grants.
12 So we're also familiar with the types of things that grant
13 recipients have to do to account back to the grant-makers. In
14 fact, for a number of years, we have done the audit for Legal
15 Services in Northern Virginia. So we're quite familiar with
16 those kinds of requirements.

17 Nationally, the firm has also adopted exempt
18 organizations as a target industry, and we've given you a copy
19 of our national news letter that's done by our national office
20 in Chicago and is distributed to clients around the country.
21 We do have a tax column in there that I write quarterly, and
22 the rest of us in Washington also contribute to that news

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1 letter from time to time.

2 In terms of other than audit, we do have complete
3 tax capabilities. Now, Legal Services' tax situation is
4 rather straightforward, there's not any unrelated business tax
5 or things like that, but who knows, that may change some day.

6 The only areas that we see that might be relevant
7 are pension plans. There is a 403-B in place and other types
8 of employee benefits, and we have a full range of consulting
9 capabilities in the tax side for that.

10 In terms of management consulting, our consultants
11 do a lot of work with computer systems for exempt
12 organizations. There's a lot of knowledge there. We
13 understand that the system in place seems to be working but
14 that there might be some changes in the system that might be
15 considered going forward or a review of what's there, possibly
16 in the area of linkages, in terms of putting different things
17 together, and our consultants can certainly work with the
18 staff, in terms of helping to get those things to happen. We
19 do think we offer the full range capabilities that Legal
20 Services Corporation could use.

21 MS. CASEY: We have, in our office, in our firm,
22 developed a unique approach in finding quality of service. We

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1 ask our clients to sit down and help us develop what we call a
2 distinctive service plan, which gives the client the
3 opportunity to set some specific standards of performance.

4 We put this into written form, and sometime during
5 the year, we sit down with the client once again and ask them
6 to grade us on how we perform during the year. Christl has
7 already explained to you how we go about staffing the job with
8 people with who are well versed in the procedures and the
9 issues that do face exempt clients.

10 Before we begin an audit, we would sit down with the
11 staff of the corporation and we would tell them what our audit
12 approach is going to be. Using industry specific
13 questionnaires, we get to gain an understanding of the
14 accounting system there at the corporation and the related
15 structure of internal controls which drives our audit and the
16 timing and our approach and the nature of the tests that we do
17 perform.

18 These decisions, in turn, will drive our tailoring
19 of our exempt organization audit modules that we would be
20 using during the audit. These questionnaires and the industry
21 exempt audit modules were developed in the Washington, D.C.
22 office and have also now been adopted nationally by our firm.

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1 We take an automated approach to our audit. We have
2 the capabilities to take the trial balance of the corporation
3 and link it directly into our computer system. This saves a
4 tremendous amount on manual data input.

5 Also, we use our auditing software package that we
6 call "CBeam," that allows us to do the adjusting journal
7 entries, prepare the analytical review work papers, and then
8 also draft financial statements.

9 Both of these software packages, the CBeam Link and
10 the CBeam were developed by GrantThornton and have resulted in
11 increased audit efficiency. Christl also discussed our
12 promises for meeting your deadlines for reporting purposes.

13 We would like to have draft financial statements to
14 you by the 9th of December, to the organization, so that we
15 can finalize them by the 20th of December, and they'll be
16 finished in plenty of time for your January board meeting,
17 which is important.

18 MS. KASLER: Finally, in terms of the staffing, what
19 you see here is what you will get. I will be the audit
20 partner and generally responsible that all services be
21 delivered to you in good quality and in good time. Harvey
22 would be responsible to see that the tax side is well taken

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1 care of, and Sheila would be in charge of the audit field
2 work.

3 As I mentioned before, she has a number of clients
4 in the industry and also provides services to Legal Services
5 of Northern Virginia. Finally, just one word about price. I
6 guess we have put that in our proposal, and again, in our
7 little handout here, we are prepared to give you a substantial
8 discount on our standard rates that we would charge normally.

9 We propose to perform the audit for \$14,250, to
10 prepare and review the tax return for \$1,500, and if your
11 staff decides to actually prepare the return, we'll be happen
12 to just review it and charge you \$500 for that.

13 We estimate about \$4,000 would be start-up costs,
14 which we would not charge you at all. We have priced it that
15 way because we would be very interested to become your
16 accounting firm, and we'll be happy to answer any questions.

17 CHAIRMAN DANA: Thank you. Members of the
18 committee, I treat everybody up here as a member of the
19 committee, so I have a few questions to ask. Members of the
20 committee, just barge in when you think I've talked too much.

21 We don't pay taxes, we spend them, and my first
22 question is what experience do you have in serving

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1 organizations like the Legal Services Corporation; that is,
2 that really spends tax dollars?

3 MS. KASLER: In terms of direct appropriations, you
4 mean?

5 CHAIRMAN DANA: Yes.

6 MS. KASLER: We have worked with Neighborhood
7 Reinvestment Corporation, and over two years ago now, they
8 were looking to improve the air systems that provide oversight
9 over the grantees, and we helped them develop such a system.
10 So that's one organization that's very much like you.

11 We have other clients in the nonprofit area that get
12 federal grants or contracts and then turn around and provide
13 grants to subgrantees and therefore are obliged to monitor
14 subgrantees.

15 So the situation is very similar, again, to what you
16 are doing; reviewing proposals from potential subgrantees,
17 evaluating the worthiness of a particular proposal, granting
18 the money, and then seeing that the monies are being spent in
19 accordance with what was initially contemplated.

20 We have a number of such clients. The American
21 Association of Community and Junior Colleges have substantial
22 federal grants that they then give out to community colleges

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1 that perform under the grant.

2 CHAIRMAN DANA: Is the National Investment Corp.?

3 MS. KASLER: Reinvestment. Neighborhood
4 Reinvestment Corporation.

5 CHAIRMAN DANA: Neighborhood Reinvestment
6 Corporation. Do they receive money directly from Congress?

7 MS. KASLER: Yes, directly from Congress.

8 CHAIRMAN DANA: And then make grants?

9 MS. KASLER: Right.

10 CHAIRMAN DANA: And have you been their auditor?

11 MS. KASLER: No. We did not perform an audit of
12 that organization, but we helped them design their oversight
13 system to oversee their subgrantees.

14 CHAIRMAN DANA: Do you have another example of a
15 direct recipient of congressional appropriations that you have

16 -- MS. KASLER: Not in the Washington office, and I
17 have not looked to see whether firm-wide we have some.

18 CHAIRMAN DANA: I see. We are a board of appointees
19 of the President, who hopefully someday may be actually
20 confirmed in this office. We are a committee of that board,
21 with the responsibilities to deal in this area.

22 When, in the course of carrying out your

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1 responsibilities, would you feel it your responsibility to
2 circumvent the normal communication channel, which would be, I
3 take it, working with the controller and the president, and
4 come directly to this committee?

5 MS. KASLER: I would think there are several
6 opportunities, actually. We hoped there might be two
7 opportunities to meet with the audit committee, and not in
8 terms of circumventing, but straightforwardly meet with you
9 after we have planned our audit, but before we have started it
10 so that we could share our approach to the audit in general,
11 see whether you had any particular concerns that you might
12 ask, that you might charge us with, paying particular
13 attention to.

14 And once meeting again, once, after the audit report
15 back to you about the audit in general, about the system of
16 internal controls, and whether we believe it's adequately
17 functioning, and any reports on any issues that you had
18 actually asked us to pay particular attention to.

19 We would hope that you would be able to make time
20 for those two meetings. Aside from that, I hope we would
21 never have to meet, but our professional guidelines clearly
22 lay out for us when that would be the case, and that generally

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1 is the case when we find major problems with top management.
2 That's when we would be obliged to talk to you directly, and
3 we certainly would do that, but we hope it wouldn't have to be
4 necessary.

5 CHAIRMAN DANA: So do we.

6 MR. MARTIN: So do I.

7 CHAIRMAN DANA: You know something about this
8 corporation and what we do. Do you envision any special or
9 unique aspects of auditing this corporation, as distinguished
10 from your typical nonprofit?

11 MS. KASLER: Actually, each not-for-profit is very
12 unique. Each has sort of a particular personality. I would
13 take yours, knowing what we know so far, and of course, if we
14 were so lucky as to become your auditors, we would learn more
15 and then maybe add on to that; but certainly you're in a
16 unique position of having to provide oversight over grantees,
17 and our responsibilities as auditors in connection with that I
18 would view as a special charge or a unique program that we
19 would look at.

20 CHAIRMAN DANA: You would provide oversight of our
21 oversight function?

22 MS. KASLER: We would not provide oversight so much

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1 as first document what you're doing, and then look to see
2 whether your actual procedures that are being followed on a
3 day-to-day basis follow the design of what has been laid out.

4 CHAIRMAN DANA: Are these procedures the actual way
5 we go about auditing our grantees? Are you following the
6 money, or are you following the process?

7 MS. KASLER: First we have to review and document
8 your process. If our first conclusion is that the process, as
9 described to us, is adequate, then we would follow the process
10 and audit the process. If that was not efficient or not
11 possible, we would follow the money and audit the money, but
12 probably, if we had to do that, if it had to get to that
13 point, again, we would probably meet.

14 CHAIRMAN DANA: You might meet a lot of people.

15 MS. KASLER: Yes, indeed, because that's quite a
16 substantial function. I would not hope that we would have to
17 meet, but again, we would follow the process and see what
18 standards have you set out, how many grantees per year are you
19 auditing, are these audits being performed, are the reports
20 being produced, and so forth, and we would look at that.

21 CHAIRMAN DANA: What steps, if any, do you take in
22 order to -- I started out with one question and ended up with

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1 another. Maybe I better start over again. How do you feel
2 about the same team providing audit functions year after year
3 after year?

4 MS. KASLER: It most likely would not be exactly the
5 same team. This is not a very large audit engagement, as
6 audit engagements go. I would envision two people in the
7 field with the manager being there part of the time. So you
8 have only a limited number of people.

9 If left to our own devices, and if things go the way
10 we would like them to go, initially, we would bring in a
11 senior and a junior person to be there for the duration of the
12 audit. The following year, the junior person would take on
13 more responsibility, and we would bring in a new junior, and
14 things would orderly, hopefully, move along.

15 You would, for a long period of time, have the same
16 team in place, and then we have, of course, permanent files,
17 where we document your system so that your staff does not have
18 to retrain us every year, but we would see, hopefully, an
19 orderly progression.

20 CHAIRMAN DANA: Members of the committee, are you
21 making me do all the work?

22 MS. WOLBECK: Would you explain the procedures that

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1 you used in formulating the bid?

2 MS. KASLER: In formulating the --

3 MS. WOLBECK: The bid that you put in.

4 MS. KASLER: Oh. What I looked at, that we
5 followed? We were invited by management to come and ask
6 questions. We came, and five or six people were kind enough
7 to, first, tell us a little bit about the organization and
8 then let us ask questions.

9 Using the financial statements and the tax returns,
10 we asked questions about how revenues are drawn down or how
11 revenues are received, and then how disbursements are made,
12 basically to get a sense of the activities and the financial
13 accounting processes.

14 From that information, we prepared a time budget, as
15 we do for all audits. Of course, having to make some
16 assumptions, but again being allowed to ask staff questions,
17 so we made some phone calls when we discovered holes in our
18 understanding.

19 Put together a time budget, and based on that,
20 presented you with a fee proposal, and we gave you both our
21 hourly -- the number of hours we feel it takes, what that
22 would be at our standard rates, and then what we would ask you

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1 to pay at our discounts rates.

2 MS. WOLBECK: Thank you.

3 MR. HALL: Mr. Chairman.

4 CHAIRMAN DANA: Please.

5 MR. HALL: Ms. Kasler, I'm really ignorant when it
6 comes to what you all do, so forgive me. Start up costs, what
7 does that include?

8 MS. KASLER: I just very briefly laid out what we
9 did, for an hour or two talking to the staff, finding out
10 about the activities of the organization and how the organize
11 captures financial transactions; an invoice coming in the
12 door, or what approval process does it go through? How does
13 it get paid? How does the check get out the door? That sort
14 of thing we would document in a good amount of detail to
15 thoroughly understand what the organization is doing. That is
16 the bulk of our start-up costs.

17 MR. HALL: At this point, none of that, course, has
18 been done.

19 MS. KASLER: Correct, a minimal amount, just to get
20 an overall view enough so that we can present a proposal.

21 MR. HALL: And is that based on, like, an hourly
22 rate in the estimate?

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1 MS. KASLER: Right?

2 MR. HALL: And what hourly rate?

3 MS. KASLER: It's a blended rate, roughly \$95
4 average.

5 MR. HALL: Depends on who does what?

6 MS. KASLER: Right.

7 MS. CASEY: It's a lot of, also, collecting legal
8 documents, lease agreements; things that we need in our
9 permanent files about the organization.

10 MR. HALL: It's getting to know us, more or less.

11 MR. BERGER: And it would also include meeting with
12 the predecessor auditors and looking at the work that they've
13 done in prior years.

14 MR. HALL: The transition.

15 MR. BERGER: The transition.

16 MS. KASLER: So that we would not have to audit
17 beginning balances, but be able to rely on the previous audit
18 report.

19 MR. HALL: Do you commonly forgive those costs when
20 you are --

21 MS. KASLER: To exempt organizations, yes.

22 MR. HALL: On a year-by-year basis, or when you're

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1 starting up?

2 MS. KASLER: It's really just a one-time effort, and
3 then there's an annual update, which is included in the fee.

4 MR. HALL: Okay. Of course, it would much less time
5 to get to know someone --

6 MS. KASLER: Yes indeed.

7 MR. HALL: Mr. Chairman, thank you.

8 CHAIRMAN DANA: Thank you. Do you have any
9 questions of us?

10 MS. KASLER: What is important to the board when
11 making the decision who the accounting firm will be?

12 CHAIRMAN DANA: Well, I have not been very good at
13 predicting what our entire board feels, but my view is that we
14 should be looking for competence, somebody to make sure that
15 our staff has done everything appropriately, someone who works
16 well with our staff.

17 We are proud of them and feel that they are
18 competent. We love to be reassured, because if something goes
19 wrong, we get blamed; and we're politicians, to a degree, and
20 you know how politicians are. I guess I would like to, if I
21 have a reservation, I would like somebody with more -- some
22 real experience in dealing with congressionally funded grant-

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1 making agencies. I sense a weakness there.

2 MS. KASLER: Can you share with me why you feel that
3 is needed, direct audit experience?

4 CHAIRMAN DANA: I'm not sure that it is, and
5 everybody's got to start somewhere, but I think that we have
6 to deal with congressional oversight, and the dynamics of a
7 corporation like this is much influenced by tempo of what
8 happens in the adjoining village across the river.

9 So everybody who is involved with the corporation
10 has to adjust to that, too. If a meeting is scheduled for
11 9:00, you show up at 1:00, you don't get seen until 2:00
12 because somebody on the Hill is holding a hearing, and it goes
13 too long.

14 But there are the dynamics of -- corporate finances
15 are influenced by that tempo, and I think it would be helpful
16 to have someone who understood that. I'm not sure how
17 important it is, but I think it's something we've all had to
18 pick up, and my sense is you could pick up very quickly, if
19 you don't have it already.

20 MS. KASLER: If I just may add a sentence here,
21 although you're very unique, in terms of getting direct
22 appropriations from Congress, all exempt organizations, to

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1 some degree, share your burden of fiduciary responsibility, in
2 that they have either members, because they're a membership
3 organization, or they are responsible to the public, since
4 they're getting, basically, also tax supported money.

5 So although you're very unique, I think we clearly
6 understand the nature of your revenue and therefore your
7 charge and your challenge to preside over the proper
8 disbursement of these monies.

9 CHAIRMAN DANA: Thank you all very much, and again,
10 I'm sorry for the delay. We appreciate your presentation. It
11 was excellent, informative, and we appreciated the cut in your
12 rates.

13 MS. KASLER: Thank you. Do you know yet when you
14 will make the decision.

15 CHAIRMAN DANA: We make recommendations. The board
16 is meeting on the 8th of July, and we hope to have a
17 recommendation for the board that they would hopefully endorse
18 on the 8th of July.

19 MS. KASLER: Thank you very much. Thank you for
20 having us.

21 MR. BERGER: Thank you for the opportunity.

22 CHAIRMAN DANA: We apologize for the timing. We are

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1 a committee of a board that is a recessive board. We are, as
2 you know, seeking auditors for this coming year. What I'd
3 like to ask you to do is, if you have an opening statement and
4 would like to talk to us about yourself, that would be great,
5 then we have a few questions we'd like to ask you, then I'll
6 give you an opportunity to ask us questions.

7 PRESENTATION OF ROBERT TITUS, COFI OWUSU

8 MITCHELL/TITUS & COMPANY

9 MR. TITUS: Well, just to introduce myself, I am Bob
10 Titus, and this is my partner, Cofi Owusu. We do have some
11 presentation materials that we can pass out to you.

12 If I can, I would like to tell a little bit about
13 the general capabilities of Mitchell/Titus and Company, and
14 this is on page 3 of the presentation materials.

15 Our firm is a 17-year-old firm. We have offices
16 here in Washington, D.C., an office in New York City, and a
17 office in Philadelphia. In this entire organization, there
18 are approximately 200 people in our organization. To us,
19 that's a large firm. Compared to some of the larger firms, I
20 guess it's not that big.

21 We've experienced a lot of success, I think, in our
22 firm over the years, and we would attribute that primarily to

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1 our emphasis on quality. We try to do a good job for our
2 clients. One of the things about us is that we do have a
3 diversified practice. We are like the traditional CPA firm,
4 in that the bulk of our efforts are in the audit area.

5 We do accounting services, we do taxes, and we're
6 also involved in management consulting. The industries that
7 we're involved in is that we do a significant amount of
8 nonprofit organizations, not-for-profit organizations. We do
9 a significant amount of work in the governmental sector, both
10 the federal, state, and local governments, and here in
11 Washington, the Washington office does a significant amount in
12 the federal sector.

13 We're fortunate enough to have several Fortune 500
14 clients in our client portfolio, not as their overall
15 auditors, but they have been able to call about segments of
16 work that we've been able to handle. We've developed some
17 expertise in accounting and auditing for pension plans, and of
18 the several pension plans that we account for, we are the
19 auditors of records of Pepsi-Co, Time Life, Bristol Myers and
20 things of that nature.

21 In addition, given the type of firm that we are, we
22 do have a good cadre of small businesses in our client

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1 portfolio. The key people that we have proposed for this
2 engagement are sitting here, and would propose myself, Bob
3 Titus, and I am a co-founder of the firm, and we have proposed
4 me to serve as the client service partner.

5 In that role, I will be the primarily liaison
6 between -- primary liaison with the LSC audit committee, who
7 we think that that would be our point of contact. I also
8 would have the responsibility of seeing that the firm's
9 resources and support and administrative, technical needs are
10 being brought to this engagement.

11 In addition, as the client service partner, I would
12 have some responsibility being knowledgeable about the audit
13 requirements and the status of the engagement. Having someone
14 like me, Bob Titus, assigned to this is an indication of the
15 importance in our firm that we would place on an LSC. It
16 would be a very, very important client in our portfolio. I
17 would like Cofi Owusu, who is my partner, to talk about his
18 role.

19 MR. OWUSU: I'm the designated engagement partner.
20 I'm one of the partners in the Washington, D.C. office, and as
21 such, I will play a key role in the engagement. I will have
22 the direct supervision of individuals assigned to the

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1 engagement. I will be responsible for the propriety of audit
2 conclusions and audit results.

3 I have served on many numerous non-for-profit
4 organizations as my engagement partner, and at one time, I
5 used to work at Legal Services Corporation in the audit
6 division. I think I understand the programmatic needs of
7 Legal Services Corporation, and my assignment to this
8 engagement would be an added benefit.

9 CHAIRMAN DANA: When were you with the corporation?

10 MR. OWUSU: 1982.

11 CHAIRMAN DANA: Wonderful year.

12 MR. TITUS: Just to sum up, we have a little section
13 here on why Mitchell/Titus is our selling bit, here. We think
14 that we have key people to do the job, since nonprofit
15 organization is what we do best.

16 Our entire staff has significant knowledge and
17 experience in accounting and auditing for nonprofit
18 organizations and organizations in the governmental sector.
19 We have successfully served as auditors for numerous nonprofit
20 organizations in the past.

21 We do have a history, and we've indicated that in
22 our proposal, of producing high quality work, and also we're

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1 very, very sensitive to the need for producing these
2 engagements on time. We've provided the references in our
3 proposal who could testify to the quality of our work.

4 A one thing about the staff is that we feel
5 particularly proud about our staff, because we think they give
6 the client the sense of assurance that they are academically
7 or professionally prepared in that over half of our staff are
8 Certified Public Accountants and over half have their Master's
9 degrees. So we think that we're a known quantity in the not-
10 for-profit sector.

11 Given that, since we think we know what we're doing,
12 we'd cause minimum disruption to the staff during the audit
13 process. We're sensitive to their needs, and we know how to
14 go in there, get the job done, and produce a good product.

15 CHAIRMAN DANA: Thank you. Could you tell us what
16 entity that you have audited in the past that comes closest to
17 the kind of corporation that we are?

18 MR. TITUS: Well, an organization that would be
19 similar to what you are would be -- we have, in our client
20 portfolio now, in our New York office, one of your recipient
21 organizations. It used to be called CALS, Community Active
22 For Legal Services, now it's Legal Services of New York City;

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1 that's on the other hand. We have numerous clients in our
2 portfolio who are funded by federal programs.

3 MR. OWUSU: We have some clients who are funded by
4 foundations, primarily by foundations, and they, in turn, give
5 out the money to recipients, and they're money type
6 activities, and that is National Coalition for Blood, Voter
7 Participation, Inc.; they receive a lot of money from
8 foundation to conduct partisan activities, nonpartisan
9 activities. They have to administer the grants the way LSC
10 gives out a grant to recipients and administer and make sure
11 that they are in compliance with the terms of the grant
12 agreements, and are making sure that they are spending the
13 money in a way that is permissible under the grant terms.

14 CHAIRMAN DANA: Do you represent or do you audit any
15 entity that reports directly to Congress?

16 MR. OWUSU: Not in our existing client portfolio,
17 no.

18 CHAIRMAN DANA: Under what circumstances in the
19 course of your audit would you feel obliged to come to this
20 committee to report to us, as opposed to the normal reporting,
21 which we assume would be through our controller and president?

22

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1 MR. OWUSU: As part of our audit approach, we have
2 initial meeting with the board so that we will know the
3 board's concerns. We take interest consideration the board's
4 concerns in developing our detailed audit procedures.

5 During the audit process, if we find out that there
6 are some matters that needs the board's attention, we bring it
7 to the board. We will try to meet with the audit committee,
8 for instance, if there are -- we will read enabling
9 legislation of Legal Services Corporation, and we will see
10 that management is in compliance with the terms of the
11 enabling legislation.

12 If, in our opinion, we think that there is a
13 resolution of -- there is a different interpretation on some
14 issues, we will probably -- we will seek guidance from the
15 board, and we will ask that we meet with audit committee to
16 resolve these matters.

17 MR. TITUS: I think it's important that we take a
18 position that the auditors are really reporting on management
19 and not reporting to management. So we really look at the
20 audit committee as the supervisory arm that we go to.

21 In the normal course of the audit, one tries to and
22 one normally does, work out things with management, but

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1 through those rare occurrences should there be any evidence of
2 fraud or defalcations or any deliberate attempt to, in those
3 rare cases, deliberate attempt to falsify the financial
4 statements, that would be something that we would come to the
5 board for.

6 In addition, as Cofi has indicated, our approach is
7 to have an initial meeting with the board up front, to have a
8 meeting of the minds. To the extent that there are any
9 particular areas that you would like us to look into or things
10 of that nature, then we would be addressing it in that manner.

11
12 CHAIRMAN DANA: Have you ever been charged with
13 auditing an entity that had its own inspector general?

14 MR. OWUSU: Yes. For instance, we've done a lot of
15 work for -- we used to do a lot of work for Federal Home Loan
16 Board Bank, FSLIC, and we do a lot of work for U.S. Department
17 of Housing and Development, and they have inspector general
18 office. Most times we have worked with the inspector
19 general's office.

20 CHAIRMAN DANA: In our situation, how would that
21 work? You've been hired by the corporation, and the inspector
22 general comes to you and says, "I want you to look at this."

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1 How do you handle that?

2 MR. OWUSU: One of the things that we try to do is
3 to get involvement from any sector, in any sector which deals
4 with financial activities. We will regard inspector general's
5 office as the internal audit function of an entity, and we
6 seek

7 -- there are some times that they have done some work, they
8 have done some compliance reviews or internal operations
9 review.

10 We consult with them to make sure that there is no
11 duplication of effort, or we consult with them to make sure
12 that if they have some particular concerns that we need to
13 direct our attention to or do in-depth study, we will do so.
14 It is a consultation process. We do consultation with them.

15 CHAIRMAN DANA: Do you feel that your prior
16 experience with the corporation is a plus or a minus?

17 MR. OWUSU: I think it is a plus, because if anybody
18 -- you know, I understand the corporation, because I worked
19 there, and plus I was working in the audit division, and the
20 audit division was doing a lot of work monitoring the
21 recipients, the programmatic concerns, and again, we used to
22 go in and audit the CPA firms, review the CPA firms which were

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1 auditing the recipients, because we wanted to make sure they
2 were receiving good audits and that LSC funds were protected,
3 because there were so many times there were issues about what
4 really is LSC funds, the fund balance, LSC fund balance, we
5 wanted to make sure that the amount that is being recorded in
6 the LSC fund is correct.

7 CHAIRMAN DANA: Members of the committee?

8 MS. WOLBECK: I just have one simple question. How
9 many people do you have in your Washington office?

10 MR. TITUS: In our Washington office, we have about
11 50 individuals in our Washington office.

12 CHAIRMAN DANA: Do you have any questions of us?

13 MR. TITUS: I don't think so.

14 CHAIRMAN DANA: Okay. We thank you very much, and
15 I'm very appreciative of your presentation, which has been
16 excellent, and our process, from here on out, is that we are a
17 committee that makes a recommendation to a board that meets
18 under this gentleman's watchful eye on July 8th, and,
19 hopefully, we will have a decision on July 8th, and we'll let
20 you know then.

21 MR. TITUS: Thank you very much. Thank you for the
22 opportunity.

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1 of the top nonprofits in the D.C. area, and the Legal Services
2 Corp. actually appeared on that list in one of the top, in the
3 top ten.

4 At that point in time, those of us
5 in the nonprofit unit within Koopers & Lybrand, quite frankly,
6 targeted the Legal Services Corp., and we did so because it
7 was, one, compatible with our purpose and mission and
8 experience in the D.C. office; we spend about a third of our
9 recurring audit hours in the exempt organization areas. There
10 is a pretty broad base of experience.

11 Second, for me personally, in the way I became your
12 engagement partner was that I have been involved with the
13 United States Catholic Conference for a couple of years, and
14 they, as an affiliate, have a Legal Services Corporation that
15 does things in a very similar manner to yourselves.

16 They are not funded by an appropriation, instead by
17 fees and the like, but I saw some compatibility of mission,
18 purpose, and, quite frankly, some experience and expertise
19 that I felt we could bring to the table. So it, quite
20 frankly, all came together very well, from our perspective.

21 With me today is Loxley O'Conner, and he would
22 function as the engagement manager. The two of us are the key
people on the team, which actually consists of a number of

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1 individuals and a supporting cast, a concurring partner who
2 would help me with any technical decisions or service
3 situations that you may have.

4 We usually involve tax people and information
5 technology specialists, but the bottom line, quite frankly,
6 and I think how you assess the quality of the service you get
7 will be dependant on how you feel about our experience, our
8 expertise, and what we'll bring to the table and how we'll
9 bring it to the table.

10 Recognizing that you probably all haven't had a
11 chance or have a desire, even, to study the document, what I
12 wanted to do is just go over a couple of key points within the
13 document, try to help you answer the question in the way I
14 would answer it, in the sense why Koopers & Lybrand.

15 I'd also like to give Loxley a couple of minutes to
16 talk about our approach to service, our audit approach, and
17 then turn the floor back to you for any questions that you may
18 have.

19 I think the simplest way to do this is to focus,
20 really, on the executive summary, and specifically I'll speak
21 to the table at the end of the executive summary and try to
22 fill in some of the specifics there, in terms of why we think

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1 Koopers & Lybrand is the best firm for the Legal Services
2 Corporation.

3 The bottom line, as I said before, is that about
4 roughly over a third of our recurring audit services are
5 provided to exempt organizations here in the D.C. office.
6 What that says is that from the staff level all of way up
7 through partner, you're getting people that understand the
8 idiosyncracies of nonprofits, and there are many, both from a
9 mission perspective and approach, the perspective of the board
10 or committees of the board, the tax perspectives, and we bring
11 those people to the table.

12 The second thing, and this is probably less
13 important to you, but I think important when you're
14 considering a transition, is that the staff that kind of flesh
15 out that engagement team are people that have experience and
16 hit the ground running, so to speak.

17 We hold a considerable amount of training in the
18 general exempt area dealing with appropriations, granting
19 functions and processes so that we bring an engagement team
20 that's been through many of the situations that I'm sure you
21 face.

22 In selecting the people, as I said before, in our

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1 statement of qualifications, which is at the back, what we
2 initially presented to you was kind of the breadth of the
3 experience that we have within Koopers & Lybrand, and then,
4 after being asked to come and scope the engagement more
5 thoroughly, and learning more about your operations on a day-
6 to-day basis, getting a chance to look at the financials and
7 that sort of thing, Loxley and I come to you as a result of
8 that process, combining, as I said, the experience with
9 organizations that are similar, in terms of mission, that are
10 similar in terms of how they operate.

11 Both of us have pretty significant experience with
12 granting organizations, including those that have
13 appropriations as their major source or as a very significant
14 source. What all that means for you, quite frankly, is that
15 you get a really efficient audit approach. I think you get
16 the best value for the money. You have access through us to a
17 network of resources.

18 We couldn't serve the number of clients that we do,
19 which is in excess of 200 for the D.C. office in the nonprofit
20 area, without having a cadre of professionals that can deal
21 with systems and human resource productivity and operating
22 costs and real estate issues and the full complement.

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1 What we profess to each and every one of our clients
2 is that we believe that through the engagement team, you have
3 access to a variety of resources to solve virtually every
4 issue that you can think of. I think everyone, in looking at
5 a transition, has to ask themselves what the benefits are.

6 I think there's no doubt that one of the benefits of
7 transition is a fresh perspective. I think when you combine
8 that new perspective with the wealth of experience that we
9 bring to the table, it means that what we intend to do is
10 really bring ideas to you fairly early on.

11 As part of the normal service, we see the report to
12 management and comments for improvements and controls,
13 operations, business policies, as just part of the conduct of
14 a normal audit. What I'd like to do, though, is just let
15 Loxley spend a brief amount of time on what the audit is all
16 about, as we see it, for the corporation.

17 MR. O'CONNOR: With respect to our audit approach,
18 and when it comes down to what you'll write and what you'll
19 hear in trying to decide right now is how can we get an
20 efficient, effective auditor, one that will ensure for you
21 that all -- we have looked at the organization from a
22 standpoint of how you view it.

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1 We have looked at it from the standpoint of how
2 management understands and has set their goals in how they
3 would like the organization to achieve those goals during the
4 year. We have done this on many organizations, certainly
5 organizations such as yours that have appropriations coming
6 in.

7 One of my largest clients, Howard University,
8 functions with large appropriations that keeps it running. So
9 we understand how to work with organizations that receive
10 appropriations. We also have the experience working with
11 organizations who receive grants and really pretty much push
12 out money to subgrantees and have money work throughout the
13 country. So we're very familiar with that.

14 And our experience tells us how exactly to go about
15 doing these audits, what do we rely on, what's the approach we
16 should take, and we feel that that's one of the biggest things
17 we will bring to bear in an audit such as this.

18 Certainly, ultimately, and it will start here when
19 we get the opportunity to ask what are your concerns, that's
20 exactly where we start. We want to understand what it is that
21 is important to the board, to the audit committee, if there is
22 such, exactly where you want to start, what concerns you have

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1 with the individual programs throughout the country.

2 Perhaps you may be concerned about how monies are
3 being used. We want to understand those and address those as
4 part of our audit strategy to ensure that when we come back to
5 you we respond very clearly as to what areas are truly of
6 concern and how, perhaps, there are ways that we can go about
7 the business of addressing that. This has been our experience
8 before, we have done it, and I'm telling you that, as a firm,
9 Koopers & Lybrand is committed to ensuring that we continue to
10 do so.

11 That's our basic philosophy of our audit approach,
12 is looking at the organization from a management's point of
13 view and understand how you expect it to be managed. Going
14 along with that, of course, we're going to assure that there
15 is the highest degree of technology that is incorporated and
16 continue to improve upon the efficiencies that are generated
17 within an audit.

18 I certainly don't want to bore you with points on
19 what exactly we will do in each phase of an audit, but I guess
20 the best thing I would like to say that, as I am responsible
21 for the day-to-day running and overseeing of that audit
22 engagement, I'll assure you that we are bringing in an

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1 understanding that has been carved from our working with
2 organizations that are if not exactly similar but similar
3 enough that we can bring experiences to bear.

4 Our 200 client, over 200 nonprofit clientele have
5 certainly given us the opportunity to see that, at Howard with
6 appropriations, the Smithsonian, the National Gallery of Art
7 and so forth. That's pretty much all I want to add.

8 MS. KRAMER: Loxley touched on communications, and
9 as I said, typically what we try to do is we try to start the
10 cycle with a meeting with the committees and board to
11 understand their perspective and hopefully end the cycle at
12 the other end with financial statements, reports to
13 management, and a discussion of issues and the like.
14 Certainly, then, what I'd like to do is go to your questions.

15 CHAIRMAN DANA: Could you amplify for us on your
16 experience with organizations like this. You've mentioned
17 Howard and the Smithsonian and the National Gallery of Arts.

18 MS. KRAMER: That's from the standpoint of
19 appropriations.

20 CHAIRMAN DANA: They all get appropriations directly
21 from Congress, and do they have IGs?

22 MS. KRAMER: It varies, a couple of them -- you're

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1 probably talking a 50/50 split, in terms of whether they have
2 that.

3 CHAIRMAN DANA: What has been your experience
4 working for an entity that has its own inspector general, and
5 how do you interact with the inspector general in a situation
6 like that?

7 MS. KRAMER: I think that there is a lot that is
8 happening, whether you're talking about an entity that
9 literally has its own IG, or -- you know, a lot of nonprofits
10 right now are subject to fairly strict grant compliance
11 reporting, and essentially, our approach us to bring them, in
12 essence, into this process.

13 I mean, you have a perspective that we have to deal
14 with, in terms of risk assessment, and so do they. With your
15 permission and cooperation what we would do is deal with the
16 IG, understand what their perspective is. The other side of
17 it is often they will have performed a component of the work
18 that we can rely on or use in connection with the work that we
19 do. So it, in essence, it kind of
20 broadens the relationship a little bit.

21 CHAIRMAN DANA: Do you think it is important, in
22 selecting an auditor, to select an auditing firm that has had

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1 experience in dealing with -- in auditing an entity that
2 receives appropriations from Congress and has its own
3 inspector general? Is that prior experience helpful?

4 MS. KRAMER: Well, I think certainly the track
5 record means that what you have is a firm that -- each
6 organization and each IG and each set of activities can carry
7 with it different concerns or perspectives, but I think to the
8 extent that we've dealt in that arena, have done a whole host
9 of compliance audits, even when you get beyond the literally
10 federal appropriations, you're dealing with Congress and
11 agencies for a number of our nonprofit organizations.

12 The ability to make that process efficient,
13 effective, and quite frankly, represent the clients best
14 interests and make sure that the workload is properly balanced
15 based on the risks that are perceived. I think there's
16 definite benefit. If nothing else, you get a more efficient
17 process and a better fee.

18 I think the second thing is that the credibility
19 with the IG or the cognizant agency or whatever the scenario
20 is, is immediately raised when you choose someone that has
21 that experience.

22 CHAIRMAN DANA: In the course of your audit, under

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1 what circumstances would you feel compelled or disposed to
2 approaching the committee directly with a concern, as opposed
3 to going through the normal channel that you might be using to
4 communicate?

5 MS. KRAMER: Normally, there is a phrase "reportable
6 transactions" that's used for the types of things that you
7 include in that. Quite frankly, in my experience of following
8 other audit firms, I think sometimes what's deemed a
9 reportable transaction is a fairly minor, an item of minor
10 consequence.

11 To me, major control problems that would impair the
12 entities ability to really carry on it mission or report its
13 fiscal integrity, certainly illegal acts and anything along
14 those lines. As I said, sometimes I've seen the lack of bank
15 reconciliations from a month indicated as a reportable
16 transaction. I don't think that necessarily warrants the
17 committee members' attention.

18 What we normally do, as part of sitting down with
19 the committee in advance, is talk about what types of things-
20 - you know, that's quite the broad definition, what I'll call
21 the SEC definition of reportable transactions, but you try to
22 tailor it to each client as well. What are your concerns?

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1 Maybe you want it a notch lower or two notches lower.

2 Quite frankly, though, if I noticed something, I
3 would first want to confirm as much as is appropriate my
4 discussions with management, not that that would preclude me
5 from coming to you, but I would want to make sure that I
6 understood the facts and confirm the facts that when I come to
7 you, you get the full picture.

8 CHAIRMAN DANA: One of our problems is that we are a
9 recess board. We're not even sure we'll be here to receive
10 your report, and we may change. There may be other people
11 sitting in our seats. So it's important that the outside
12 auditors have a clear sense of what their mission is, even
13 better than our sense of what our mission is. Any questions
14 of the committee? Do you have any questions of us?

15 MS. KRAMER: Well, I think there are a couple of
16 questions that I would want to pose to you, and I guess the
17 first would be, can you describe your expectations of the
18 audit firm, I mean, beyond, obviously, the issuance of an
19 opinion.

20 CHAIRMAN DANA: Perfection, error-free, very
21 inexpensive. Obviously, we are, to varying degrees,
22 politicians, and we report to politicians and to Congress and

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1 the Administration. The last thing that politicians want is
2 to be surprised.

3 We are a regulator ourselves. The corporation's
4 primary function is to monitor others. Needless to say, we'd
5 want to be like Ceasar's wife. If we're going to go out
6 throwing stones, we want to be sure that we're clean. So we
7 want that level of protection for a whole variety of reasons,
8 not the least of which is that we are dealing with the
9 public's money and are the stewards of those resources.

10 I think if you are fortunate enough to get this job,
11 you will find that we believe we have dedicated people who
12 work very hard and do a very good job, are monitored by our
13 own IG and oversight committees in Congress, and the efforts
14 of the board itself. So it's all part of an effort to make
15 sure that everything is done well, and we want that all for a
16 dollar a year.

17 MS. KRAMER: That's a tall order. I can assure you
18 that we would certainly come to you with a good deal of
19 integrity and competence, a fair fee. I think the
20 understanding of your perspective as a regulator and the need
21 to be as clean as you expect those that you grant to is one
22 that's not unfamiliar to us.

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1 I could say that probably, principally, based on my
2 dealings with the U.S. Capitol, and many, in turn, are major
3 granting agencies, and Legal Services Corp., and their
4 perspective is not unlike yours.

5 CHAIRMAN DANA: Do you, yourselves, represent any of
6 our grantees?

7 MS. KRAMER: We didn't do a complete check of all of
8 the several hundred grantees, to be honest with you.

9 CHAIRMAN DANA: None in the Washington office, as
10 far as you're aware?

11 MS. KRAMER: Not in D.C. office.

12 MS. WOLBECK: Would you be doing the work, or would
13 be actually coming and doing the work?

14 MS. KRAMER: Well, essentially, below Loxley would
15 be a staff with two to three people who would be on site day
16 to day and would be the people responsible for literally
17 touching the documents, and things like that.

18 Generally speaking, Loxley and I have extremely
19 heavy involvement on the front end, because we believe
20 planning, making sure there are no surprises is, quite
21 frankly, in your best interests and ours in the long run.

22 Then, throughout the field work, Loxley, you could

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1 expect to see him out here during the course of the work for a
2 day here a day there, probably two days a week, certain weeks,
3 to make sure that things go forwards as planned. We would be
4 the primary place of contact for management and the board.

5 CHAIRMAN DANA: I interrupted you, if you had any
6 other questions.

7 MS. KRAMER: I guess one of the things that I would
8 normally ask a committee for one of my clients would be, the
9 easiest way to ask it is, is there anything that keeps you
10 awake at night? When you think about your responsibility
11 within the committee, are there particular concerns that you
12 have, either from an organization on an audit standpoint, to
13 the environment, that an auditor should be aware of?

14 CHAIRMAN DANA: Speaking for myself, not every
15 night.

16 MR. WITTGRAF: Nothing keeps me awake.

17 CHAIRMAN DANA: No, nothing keeps George awake.

18 MS. WOLBECK: Well, Legal Services Corporation in
19 general.

20 MS. KRAMER: Well, that's a pretty broad statement.

21 CHAIRMAN DANA: Actually, we may be ignorant, but we
22 feel very good about the level of information that we get as a

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1 board. I think that we've received, management has received
2 progressively higher marks from the accounting firm that has
3 represented us for the last few years.

4 Everything we've seen is consistent with that. So
5 we go in with no concerns whatsoever. It's really a fact that
6 somebody else is making sure that no problems develop that
7 keep us sleeping better.

8 MS. KRAMER: My last question, really, and that's
9 from a programmatic sense, how would you rate the Legal
10 Services Corporation today versus five years ago and where you
11 want to see it five years from now?

12 MS. LOVE: It's better. I think it's better than
13 five years ago.

14 MS. KRAMER: In terms of reaching a more adverse
15 group of recipients?

16 MS. LOVE: Together.

17 CHAIRMAN DANA: We have come through -- I would
18 agree with Joe -- I think with have come through a time of
19 philosophical turmoil. Some would say we are right in it. I
20 think I'd probably be in that group, but we're a little bit
21 more -- we think we're coming out of that period, and our
22 management is trying to build consensus, and the board is

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1 trying to build consensus.

2 So we would hope to continue that process. It's a
3 long struggle, because it's a matter that is for which
4 reasonable and unreasonable people differ, but I suppose we
5 would like to continue to come out of the trench warfare that
6 has plagued us over the past few years. So we're looking for
7 peace, but haven't got there quite yet.

8 MS. KRAMER: I really have no other --

9 CHAIRMAN DANA: Thank you both very much. As I
10 indicated, our process is that we're a committee, so you can't
11 blame us. We will make a recommendation, and that
12 recommendation will be decided, voted on by the full board,
13 under George's leadership, on the 8th of July, and we will let
14 you know, hopefully, the 8th or 9th, and we very much
15 appreciate your coming in, and we're very sorry you had to
16 spend the whole day waiting for us.

17 MS. KRAMER: Well, that's the clients service
18 business. I want to thank you for the opportunity, and
19 certainly, as you're going through the decision, if you have
20 any questions, feel free to call me. I think the
21 qualifications of the firm are probably best demonstrated by
22 clients and their references. So if you'd like, I can provide

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1 some references for you to call.

2 CHAIRMAN DANA: Thank you very much.

3 CHAIRMAN DANA: Hi. You have borne the real brunt
4 of our delay, and again we apologize. I've been saying it so
5 many times, but I really mean it. I know you didn't sign up
6 for losing a whole day, and I'm sorry.

7 We are a committee of a recess board that may or may
8 not be here to receive the report of the auditor we select,
9 but we hope we will be. Our plan here today is to first offer
10 you an opportunity to talk to us some about yourselves and
11 what we would expect if we retained our existing auditors, and
12 then we have some questions of you, and then we give you an
13 opportunity to ask questions of us. With that introduction,
14 please proceed.

15 PRESENTATION OF RICHARD T. MCKINLESS, SCOTT JANSSEN

16 PEAT MARWICK, CERTIFIED PUBLIC ACCOUNTANTS

17 MR. MCKINLESS: Thank you very much. Maybe, first,
18 a very quick introduction would be appropriate. My name is
19 Rich McKinless, I'm the proposed engagement partner in the
20 proposal and statement of qualifications you've received for
21 Peat Marwick.

22 To my right is Scott Janssen, who is the proposed

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1 engagement manager, who has been on the Legal Services'
2 account for the past four years for our firm and LSC.

3 I think, briefly, in advance, the only comments I'd
4 like to make for the committee is maybe to point out for your
5 benefit that since we're the incumbent, you have a little
6 different kind of expectations in hearing from us, and that's
7 only appropriate.

8 I think when you hear from an incumbent auditor in
9 this kind of situation where you're making an evaluation as to
10 whether to retain your current independent accountant or make
11 a switch, you have a fundamental question to address. In my
12 mind, you sort of have two hurdles to clear, if you decide
13 that it makes sense to maintain your existing independent
14 accountant.

15 The first is, is quality a service? Do you think
16 that Peat Marwick that taken good care of Legal Services
17 Corporation, in terms of advice to management and
18 responsiveness to the board's concerns in the past, and you're
19 certainly in a position to make that evaluation and judgment.

20 Cost competitiveness is also a part of that
21 evaluation, and since you've taken competitive bids, you're in
22 a position to assess that, too. One advantage you have in

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1 asking the incumbent to rebid in this situation is that you
2 can be generally sure that the incumbent has a good sense of
3 the level of effort required to do the work, and in that
4 sense, I would just advise you, as you go through your
5 deliberations, to consider that, since we've performed this
6 audit several times now, we do have a very good sense of a
7 realistic assessment of the work required to get the job done.

8
9 You can obviously compare rates of firms, because
10 you've asked us for both hours and fees in the quotes. So you
11 can compare that from the firms you've gotten. In my mind,
12 that's kind of the first thing you should inspect in
13 evaluating the incumbent.

14 First of all, have you gotten good service, and are
15 they being competitive? I know a secondary issue that should
16 be on the mind of the board is just the, kind of the issue of
17 independence, and once a firm has worked with management for a
18 number of years, I think any board, any audit committee, needs
19 to be comfortable that the relationship has remained above
20 board, appropriate, and that we can still provide the kind of
21 conscience for the board that you should expect of an
22 independent auditor.

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1 I believe we've done that in the past and continue
2 to do so, and, in fact, we tried to be responsive to that
3 particular point, as your incumbent independent auditors, in
4 the proposal, because we thought we were uniquely required to
5 be responsive to that issue for you.

6 Those are the only advance thoughts I wanted to
7 mention before we take your questions.

8 CHAIRMAN DANA: Well, let me say that first of all,
9 I have absolutely no basis for suggesting that you haven't
10 done a wonderful job. The fact that we decided to go out for
11 a bid this year is because we are a new board, and we have a
12 new president, and the conventional wisdom is that after a few
13 years, it may be a good idea to at least consider the
14 possibility of changing auditors, and to revoice something,
15 you get a chance to re-think your fee structure.

16 But you should not understand in any sense of the
17 word that our decision to go out to bid or in fact if we
18 choose another auditor is not a reflection in any sense on
19 past performance. I do think the issue of independence is
20 something that is important, and that's hard to assess.

21 MR. MCKINLESS: It is difficult. It's not something
22 you can put in a number, like a fee quote. It's something

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1 that's a judgment call.

2 CHAIRMAN DANA: I would be interested to get your
3 views on whether or not you have found auditing for the Legal
4 Services Corporation to be a particularly unique experience,
5 and if so, in what ways are we unique, and in what ways are we
6 a unique or relatively different entity.

7 MR. MCKINLESS: I think LSC is unique in a couple of
8 aspects, although there are other organizations that take on
9 some of those aspects. The fact that you are essentially
10 fully funded through an appropriation that is then redirected
11 through subgrants to other organizations.

12 There are very few of our nonprofit clients, and we
13 have many, that are structured that way. The one client that
14 I work with that is public structured and is in a parallel way
15 is the Corporation for Public Broadcasting. They also receive
16 a substantial federal appropriation that they redirect to
17 communications stations all over the country.

18 But they face some of the similar issues, in terms
19 of control, that they are not on site, present, to see where
20 most of their money is being spent, so they rely on their own
21 internal control structure and their inspector general's
22 office and their other internal policies and procedures to

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1 have some sense.

2 CHAIRMAN DANA: I understood how we're different.
3 The question is how those differences, if at all, impact on
4 the job you do?

5 MR. MCKINLESS: On the audit? They affect the
6 nature of some of our tests, in terms of relying on
7 confirmation to determine that the grant disbursements were
8 made to the appropriate organizations that they were intended,
9 but I'll have to say that those procedures are not unique in
10 auditing. There are things we do in other audits.

11 CHAIRMAN DANA: What has been your experience in
12 working for entities like the Legal Services and the
13 Corporation for Public Broadcasting with the IG, that has a
14 similar function.

15 MR. MCKINLESS: In terms of
16 interface with the IG as a part of the audit?

17 CHAIRMAN DANA: Yes, right.

18 MR. MCKINLESS: Neither organization has expected a
19 lot of direct participation from the IG's office, in terms of
20 supplementing the auditors work or even direct reliance on the
21 IG's work. So I can say that they're similar in that regard.
22 I'm not sure if I'm being directly responsive.

CHAIRMAN DANA: You don't have any particular

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1 protocol to exchanging information?

2 MR. MCKINLESS: Well, we do make -- with have
3 regular meetings whenever called on, to meet with the
4 inspector general. I can say that to CPB also, where we
5 exchange our own internal control reports, we're usually on
6 the distribution on the reports issued by the IG for both
7 organizations where we see what kinds of areas they're working
8 on.

9 Usually, also, we would expect that the audit
10 committee would direct us, if they saw activities conducted by
11 the IG that they felt merited follow-up as a part of the
12 annual independent audit, often, board that would be -- as
13 they receive IG reports they may say, "Well, we think our
14 independent auditor ought to focus on that in addition as a
15 part of their annual audit."

16 So my experience is we share information, but we
17 have not ever been involved in establishing the scope of work
18 for the IG or vice-versa.

19 CHAIRMAN DANA: And in your experience, you perform
20 the audit for the board, not for the IG?

21 MR. MCKINLESS: That's correct.

22 CHAIRMAN DANA: Have you ever worked for an IG, as

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1 an auditing firm.

2 MR. MCKINLESS: Yes, directly for federal agencies,
3 not for any of the private federal corporations like LSC or
4 CPB, but, for agencies, we've been contracted by IG offices.

5 CHAIRMAN DANA: Have you, in the course of your
6 current representation of the corporation, ever had occasion
7 to communicate directly with the audit committee about a
8 concern that you have experienced or covered with the
9 corporation?

10 MR. MCKINLESS: In public session or in executive
11 session or either?

12 CHAIRMAN DANA: Either.

13 MR. MCKINLESS: None in the last two years, and
14 Scott, you go back farther than I do on the account. Can you
15 recall anything prior to, farther back, where any concerns
16 were expressed to the board before there was an audit
17 committee separately?

18 MR. JANSSEN: No, I can't. The formation of the
19 audit committee, I believe, was done, what, just back in
20 November for LSC? November, and then it was formalized late
21 in the year. Have we ever had occasion to speak directly with
22 other members of the board or with the executive office of

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1 LSC?

2 The answer to that is really no, we haven't. Should
3 issues of integrity or other matters that are not accounting
4 related come to our attention, we would feel an obligation to
5 approach them on that.

6 MR. MCKINLESS: That would be the partners'
7 responsibility to contact the chairman of the audit committee
8 or, in the absence of an audit committee, another member
9 board, if there was any concern of that nature.

10 CHAIRMAN DANA: Other members of the committee,
11 questions?

12 MR. HALL: Mr. Chairman.

13 CHAIRMAN DANA: Yes.

14 MR. HALL: Gentlemen, how long has Peat Marwick
15 audited the LSC?

16 MR. MCKINLESS: I believe it's 1985, but Scott, can
17 you correct me? I didn't bring my notes with me on that.

18 MR. JANSSEN: I think that's correct. I think that
19 is correct.

20 MR. HALL: My next question may be a variation of
21 Howard's first question, but you all have talked briefly about
22 the uniqueness of the corporation. What I was wondering is,

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1 because of that uniqueness, when you first began, I assume
2 that, Scott, you were one of the first, when you first began,
3 did you run into any unexpected problems, things that you
4 hadn't anticipated that, of course, turned out to be because
5 of the way we're structured or the way we get our funds that
6 caused you any difficulties or made it any easier or presented
7 any extra problems? In other words, if somebody new came on
8 board, were there any hidden tigers?

9 MR. JANSSEN: I don't believe that there are any more
10 hidden tigers. There were years ago, before the accounting
11 department took on the structure that it is now. Years ago,
12 now, I'm speaking even before my time, there were -- as a
13 result of our audits several adjustments would occur to the
14 financial statements.

15 We do not have significant adjustments any longer.
16 We use the system of internal controls to test the
17 organization and have a tailored audit approach to address the
18 areas of significant risk. There are a number of things that
19 make LSC an easier organization to audit, one of which is the
20 way you receive your money from the federal government.

21 MR. HALL: Why does it make it easier?

22 MR. JANSSEN: Well, simply because if you compare or

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1 contrast that to another organization that maybe sells
2 trinkets on the market and sells hundreds of thousands of
3 different types of trinkets and any number of, and on and so
4 forth, you really receive just one line item of money from the
5 federal government, which comes to you through a letter of
6 credit.

7 That makes it quite easy, as a matter of fact, for
8 us to audit that. Simply send a confirmation to the
9 government, which we do, just to confirm the amounts that
10 you've received and the balance in your account; a very
11 straightforward process, takes very little time to do, and
12 with the highest degree of accuracy.

13 The testing of grants, on the other hand, can
14 sometimes be involved, and in fact, we spent a majority of our
15 audit time testing grants, just as our proposal mentions.

16 MR. HALL: I'm not sure what that means.

17 MR. JANSSEN: Okay. The grants to your grantees,
18 the funds that the grantees receive, we spend a majority of
19 our time testing. Our process, and I'm not sure if I'm maybe
20 going too far to answer your question, would you wish me to
21 continue with my --

22 MR. HALL: I'm learning as you speak.

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1 MR. JANSSEN: Okay. Our approach to auditing LSC is
2 dedicated to reviewing every new grantee file that receives
3 significant funds during the year. Not only do we look at the
4 amounts that the grantee has received, but we also look at the
5 approval process specifically.

6 We pull the documents and trace signatures right up
7 to the present and who authorizes the disbursement of these
8 funds. We look at the internal controls that surround the
9 disbursement of the funds and how they're accounted for once
10 they're out the door.

11 At year end, we're also concerned with how much
12 money they received during the year and whether or not there
13 is a payable due to these people, due to the grantee. There
14 is also a mechanism within the accounting department for how
15 they account for the BNA subscriptions, which we spent a
16 little bit of time on, which is really just a refund to the
17 organization through the grantee process.

18 MR. HALL: However, it's just a matter of work. All
19 the records are there, all the records are easily accessible?
20 It's not particularly difficult, perhaps time consuming?

21 MR. JANSSEN: That is, perhaps, one of the biggest
22 distinguishments between when I first came on to the account

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1 and what you find today. The accounting office is much more
2 organized than what it was.

3 Over the years, we have provided management comments
4 and worked with management to -- and I don't want to take all
5 the credit, I have to give credit where it's due, and that
6 should stand with the accounting department. They have
7 adopted several of our suggestions that were given both in
8 writing and verbally to introduce efficiency and organization
9 to the department, which has happened, and introduce controls.

10

11 So anyway, to answer your question -- I hope I
12 answered what your question was, without going too much in
13 detail.

14 MR. HALL: Well, I understand it's not a
15 particularly hard corporation to audit, that the facts and
16 figures are in one pile, and it may be a big pile, but they're
17 all right there.

18 MR. JANSSEN: That's right.

19 MR. MCKINLESS: And that the grantee area is where
20 we focus the majority of our attention, especially with new
21 ones as they are approved each year. It's also worthwhile
22 mentioning that we are hired to audit the financial statements

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1 and provide an opinion on the fairness of the financial
2 statements.

3 For that reason, the audit firm would not get
4 heavily involved in MAC procedures, in what your compliance
5 department would do, Emilia DiSanto's department. I see
6 Emilia every year, I ask her how things are going, I spend an
7 hour or so with her, and she tells me what new things are
8 going on in the department.

9 It's especially relevant, also, for some of the
10 grantees carry over a balance more than what they should, and
11 that becomes accounted for in certain ways by the
12 organization. So it affects the financial statements.

13 But there is a merging of Emilia's group, MAC's
14 group and the financial statement audit. We don't go too far
15 into her territory, and she doesn't look to us to give her too
16 much assurance either.

17 MR. HALL: Thank you, gentleman. Thank you,
18 Mr. Chairman.

19 CHAIRMAN DANA: Thank you, Mr. Hall. Do you have
20 any questions of us?

21 MR. MCKINLESS: Perhaps just one. Maybe you could
22 give us a sense of what's most important to the committee, in

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1 terms of making an evaluation in the selection process.

2 I know that price is always important, that's an
3 important component, but I'm sure other things are important
4 to you, too. Can you give us a sense of what all the firms
5 need to be responsive to should we be selected to serve the
6 committee?

7 CHAIRMAN DANA: Well, I'll speak for myself. I
8 think that we are the committee of the board that is charged
9 with the financial oversight function that the board performs,
10 and we see the annual audit as part of that, and you are -- in
11 fact, we would like to achieve a perfect score.

12 We are proud of our management, but if there are
13 areas to improve, we'd want you to tell them and tell us as
14 well. I think we, as politicians, we want to be assured that
15 everything is fine, and if it isn't, we want to know as soon
16 as possible. We've got a public responsibility, and as a
17 corporation, we are out auditing all of our grantees, so we
18 have to be a little bit like Ceasar's wife.

19 We've got to be quite above criticisms, especially
20 since much of our function is to criticize others. That's a
21 tall order, and we want to bring it in for about a dollar a
22 year. So to the extent that we achieve that objective, we

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1 consider ourselves of having done a good job.

2 MR. MCKINLESS: That's a good answer.

3 CHAIRMAN DANA: I will say that we are very pleased
4 with the job that our management has done, for the gentleman
5 who is approaching us from the left. We think he's done a
6 good job, and we think unquestionably that your assistance has
7 made that possible and has been of great assistance, and I
8 will tell you without embarrassing him that he's quite a fan
9 of your operation.

10 So with that, I want to thank you not only for today
11 -- I apologize for the delay, but thank you for your service
12 over the last four years and maybe on interest the future, but
13 that will be decided at a board meeting on the 8th of July,
14 based upon the recommendation of this committee.

15 MR. MCKINLESS: You mentioned we might have a chance
16 for any closing comments?

17 CHAIRMAN DANA: Please.

18 MR. MCKINLESS: Would now be appropriate for that?

19 CHAIRMAN DANA: Sure.

20 MR. MCKINLESS: If you didn't mind, Howard, I'd like
21 to pass out one piece of paper for the committee. Would that
22 be okay?

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1 CHAIRMAN DANA: That would be wonderful, sure. MR.
2 MCKINLESS: This is something I thought was more appropriate
3 for this setting than in a formal proposal document. It's not
4 unique to our firm but it's something that I thought should be
5 highlighted, in part because the audit committee's current
6 form is fairly new.

7 One thing I like to point out to all audit
8 committees that we have the opportunity to work with is to be
9 sure they understand what their independent accountant's
10 obligation is, in terms of communication with them.

11 We operate, and this is all accounting firms, under
12 professional standards that since 1988 have obliged us to
13 ensure that you are informed about certain matters regarding
14 our relationship with management and conduct at the audit
15 every year. I bulleted those topics here just
16 for your information, and I want to walk through a couple of
17 them, because they're important that you appreciate that it's
18 part of what you should expect from your outside accountant.

19 The first couple are fairly standard, just that you
20 understand the accounting policies, that there are estimates
21 and judgments inherent in the financial statements, the third
22 one, that if we proceed significant adjustments to the

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1 financial statements that you be informed of that.

2 The fourth one talks about, really, annual reports,
3 and if our audit report is incorporated in an annual report,
4 we should look at that document. The last few items are more
5 important, and those are the ones I really wanted to be sure
6 that the audit committee appreciated.

7 Disagreements with management, if there was ever an
8 instance where we felt, in conducting the audit, that on a
9 financial reporting matter we disagreed with management, even
10 if that disagreement was ultimately resolved in some fashion,
11 and we agree on what the numbers should be, it is the
12 independent accountant's obligation to inform the audit
13 committee what the nature of that disagreement was and how it
14 was resolved.

15 That can be done verbally or in writing, but the
16 obligation is there. The next item, consultation with other
17 accountants, that's the opinion chopping provision that, in
18 essence, says that if management checks -- say if Peat Marwick
19 is retained and auditor and management decides to check with
20 Price Waterhouse as to "Would you guys live with this
21 accounting?" before asking me, then first of all Price
22 Waterhouse is obliged to call me, since that firm is not

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1 retained, and let us know, and then I am obliged to let you
2 know that management is checking around for what accounting
3 they can get on a particular transaction or disclosure,
4 related party matters, whatever the case may be, if it's a
5 sensitive matter.

6 The next to last items is a similar one, and that
7 would be if we felt we got any pressure from management to
8 sign off on a proposed accounting or disclosure treatment
9 before we were retained for the current year.

10 That would assume that, in a current year, if
11 management had the ability to retain us, and said, "Please
12 tell us how you're going to account for this particular
13 transaction or whether you'll have to disclose it or not, and
14 then we'll talk about whether you're doing the audit this
15 year," if we ever felt we got that kind of pressure, again,
16 we'd be obliged to advise the committee of that fact.

17 The last is kind of a catch-all. Anything else that
18 we think that was difficult about the audit that the committee
19 should be aware of, that promises were made about giving us
20 support or there were unusual delays that we felt were not--
21 or that were caused by management that you should be aware of.
22

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1 that all four of these firms are qualified to do the work?

2 MR. RICHARDSON: Yes, sir, it is. Let me summarize
3 a couple of things, though, before we go any further, and that
4 is in regards to the hours that they are proposing, and I'll
5 go straight down the line, just like you were just speaking
6 of.

7 For instance, firm A, their bill is based on 225
8 hours doing the audit. Firm B is 329 hours. C is 362,
9 however they have proposed they they would absorb 64 hours,
10 basically would be based on 298 hours for the audit work, and
11 then the last firm is D, would be 234 hours.

12 Just by way of review, all these companies,
13 accounting firms, were given the same information, same detail
14 schedules, last year's financial audits. There is a bit of a
15 -- there's quite a swing there. As far as capabilities, I
16 have no problem with any of them. I think all of them are
17 equally capable of doing the job.

18 MS. WOLBECK: Mr. Chairman.

19 CHAIRMAN DANA: Yes.

20 MS. WOLBECK: The hour thing, does that mean to say
21 that they're guessing that that's the hours that they'll need,
22 or is that the many hours that they're going to give us? What

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1 does that mean?

2 MR. RICHARDSON: That's the number of hours that
3 they anticipate to complete the financial audit. However, any
4 firm that we would engage, for instance, if you engage one
5 that is the low bidder, and they've underbid because of the
6 hours they propose, the way we would structure the contract is
7 they would have to do the contract for the stated bid.

8 MS. WOLBECK: Okay.

9 MR. MARTIN: May I ask a question, Mr. Chairman?

10 CHAIRMAN DANA: Please.

11 MR. MARTIN: So any hours that, let's say, firm A,
12 if they had to work in excess of 225 hours, that is, they are
13 stuck with this bid?

14 MR. RICHARDSON: That is correct. They would have
15 to come back to the audit committee or to management. For
16 instance, if my office didn't provide them timely schedules,
17 we created the delay, then, yes, they could come back to you.

18 MR. MARTIN: Can I follow-up, Mr. Chairman?

19 CHAIRMAN DANA: Sure.

20 MR. MARTIN: Would they be in a position, or would
21 our contract or whatever we would use to retain them, have in
22 it a provision, as there is in many defense contracts, that

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1 they can petition for additional hours?

2 MR. RICHARDSON: No, sir. Our contracts have never
3 been structured that way.

4 MR. MARTIN: So we can count on these figures as
5 being out outlay for these years?

6 MR. RICHARDSON: Yes, sir.

7 CHAIRMAN DANA: And my understanding is that we have
8 proposed three-year contracts, and these bids are three-year
9 bids?

10 MR. RICHARDSON: Actually, no. I've asked all of
11 them to give us the one-year bid, and then supplement it with
12 the prior two. So you could give a one-year contract.

13 CHAIRMAN DANA: On these prices?

14 MR. RICHARDSON: That is correct.

15 CHAIRMAN DANA: If we went for a three-year
16 contract, would we lock -- if we liked A, and we thought its
17 price was good, we could lock it up for a longer period?

18 MR. RICHARDSON: Yes, sir.

19 CHAIRMAN DANA: Do with have any ethical problem
20 with -- I mean, is it sort of buyer beware? For instance, one
21 of the entities that supplied, that has actually provided the
22 service, has a higher estimate of hours than the low bidder,

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1 not surprisingly. What is our legal or ethical obligation to
2 share that?

3 MR. RICHARDSON: I don't believe there is an
4 obligation there. Yes, the hours that the firm who has been
5 retained is higher, however, last year's audit was
6 substantially under that. They were less than two weeks
7 finishing the audit in the field, and as far as I'm aware,
8 there was only one day, actually half a day before where they
9 actually did some work where we supplied them some data or
10 they went through the confirmation process identifying
11 grantees.

12 There was some planning time up front, and of
13 course, as one of the firms stated, because the start-up time
14 involved, they already had spent -- they had the audit plan in
15 place.

16 CHAIRMAN DANA: Members of the committee, do you
17 have any guidance or reactions to them or any instincts?

18 MR. HALL: Mr. Chairman.

19 CHAIRMAN DANA: Yes.

20 MR. HALL: I may have missed it. If it takes B less
21 than 329 hours, they still get the full amount that they bid?

22 MR. RICHARDSON: That's correct.

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1 MR. HALL: So it cuts both ways?

2 MR. RICHARDSON: That's right.

3 MR. HALL: And you're telling me that providers that
4 we've had in the past have done it for less hours than that
5 329, in actuality?

6 MR. RICHARDSON: Yes, sir.

7 MR. HALL: Of course, that really wouldn't matter.
8 It doesn't affect the price.

9 MR. RICHARDSON: That's right, but they have done it
10 for less.

11 MR. HALL: About how much less? Is 225 reasonable
12 or realistic?

13 MR. RICHARDSON: I would think so. Last year, for
14 instance, we had people in-house, we had one gentleman for
15 nine days, and basically an eight-hour day. We had another
16 young lady that was in-house for six days, again an eight hour
17 day. So it's 48 plus are 72; it's 120 hours.

18 Now, outside of that, yes, there might have been a
19 day of preparatory time, two people planning, maybe three.
20 Even if you would go a week for two people, it still would be
21 under 225.

22 CHAIRMAN DANA: I got onto a series of questions, so

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1 I sort of went through it with everyone. I guess I am
2 satisfied, based upon everybody's comments, that we are not
3 dealing with a situation where prior experience with the
4 corporation or with an analogous corporation is absolutely
5 essential.

6 I'm correct, am I not, Mr. Richardson, that there's
7 not much of a relationship between Congress and our outside
8 auditor? We relate to Congress and our outside auditor
9 relates to us.

10 MR. RICHARDSON: That is correct. And, of course,
11 we provide our finance statements to OMB and the different
12 House and Senate appropriations committees, and they, of
13 course, do rely upon the audit firm that our statements fairly
14 present our operating position.

15 We have not had a case in my tenure where any member
16 of Congress or OMB has contacted the accounting firm.

17 CHAIRMAN DANA: Do we use what used to be called
18 governmental accounting, encumbrances and things like that?

19 MR. RICHARDSON: We do not have a full encumbrance
20 system. We do monitor it, yes, sir. Our accounting is not
21 purely government; it is fund accounting. You had asked me a
22 question at one time in regards to the accrual process, and in

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1 particular, the vacation accrual.

2 The government does not vest or fund its vacation
3 accrual. They are strictly cash basis. That is one the
4 reasons, when we look at an accounting firm, we look for the
5 government, experience somewhat in a government, but also the
6 commercial aspect and the not-for-profit, because in a not-
7 for-profit, we would have to fund or vest our pension and
8 vacation on an accrual basis. We use, basically, a modified
9 accrual system different from government but yet different
10 from the commercial sector also.

11 CHAIRMAN DANA: Is there anything in the
12 presentation today that you heard or in your review of the
13 documents that the people have submitted that would cause you
14 to not pick the low bidder?

15 MR. RICHARDSON: No, sir. I think with the
16 questions that were asked and the answers -- certainly the
17 questions of your committee, I think, showed a basic knowledge
18 that would be required in handling the audit.

19 CHAIRMAN DANA: Would you like to make a motion that
20 we recommend to the board that we go with the low bidder?

21 MS. WOLBECK: I think so.

22 CHAIRMAN DANA: I heard nothing, and David, did you

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1 hear anything?

2 MR. MARTIN: I didn't, and I thought all the
3 presentations were very able, and I rely on Mr. Richardson. I
4 think they were all four well-qualified.

5 MR. HALL: Mr. Chairman.

6 CHAIRMAN DANA: Yes.

7 MR. HALL: I know you're pressed for time.

8 CHAIRMAN DANA: That's all right. We have six
9 minutes. Take your time.

10 MR. HALL: You asked a question earlier whether we
11 should inform B if we going to go with someone else, I assume
12 so that they could have an opportunity to meet the price. I
13 don't know, something's kind of appealing about that idea to
14 me, but maybe that's not proper.

15 MR. RICHARDSON: I don't believe it would be proper.
16 That's the reason we go through the bidding process.

17 CHAIRMAN DANA: My suggestion was the other way
18 around, and any sense of possible guilt was relieved by
19 management telling us that in fact they thought that the 225
20 range was a realistic range and that a higher number of hours
21 for B was maybe high.

22 So I feel as though we have no obligation and that

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1 we are not taking advantage of any of these entities to go
2 with the low bidder. I think it would really be bad to go
3 back to the other bidders and get them to enter into a second
4 round.

5 I will second that motion, and do you have any
6 comments? Would you recommend a one-year contract or a three?
7

8 MR. RICHARDSON: I would recommend a three-year
9 contract, with however, for instance, a buy-out provision. If
10 you were not satisfied with their services, maybe -- I don't
11 know, you would decide that, maybe a 2,000 or 3,000 buy-out,
12 something that would be reasonable --

13 MR. MARTIN: Mr. Chairman, why don't we staff
14 prepare something for your perusal before the July 8 meeting,
15 and we'll circulate it to your committee.

16 CHAIRMAN DANA: Great. The motion is a one-year,
17 and if you can structure a deal that looks like we could get a
18 three-year price with a buy-out if we were unhappy, even if it
19 went both ways, that would be fine. They wanted to get out
20 --

21 MR. RICHARDSON: They may find out the hours are
22 --

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1 CHAIRMAN DANA: That's fair. Lock them in for one
2 and a buy-out for the second and third. Hearing no further
3 discussion, all those in favor say aye.

4 (A chorus of ayes.)

5 CHAIRMAN DANA: Opposed?

6 (No response.)

7 CHAIRMAN DANA: It is a vote, nearly unanimous. I
8 mean it is unanimous. Now, if I can hold you for the
9 remaining four minutes, what I would like to do is recommend
10 to the board that we approve the changes that management has
11 proposed in the various management lines of the COB.

12 They are all really modest, and since the seventh-
13 month report is now based upon that as though we approved it,
14 and since we had approved the original one, I would like to
15 recommend that we do that.

16 MS. WOLBECK: I so move.

17 CHAIRMAN DANA: And I will second it. Is there any
18 further discussion?

19 (No response.)

20 CHAIRMAN DANA: All those in favor say aye.

21 (Chorus of ayes.)

22 CHAIRMAN DANA: That is our second recommendation.

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1 I think we should defer the review of item 5, 6, 7, to our
2 next meeting, and I don't know when that will be, but is there
3 anything else that you would like us to do before, in
4 anticipation of the next meeting?

5 MR. RICHARDSON: There's one thing and that is a
6 clarification of the allocation proposed to other funds, where
7 we were funding the law school grants. We had originally
8 asked for the \$61,000 to be put into the law school line so
9 that we could fund additional law school clinics.

10 When we had talked, you had basically said that you
11 would think about that, possibly reducing it to approximately
12 \$17,500, just enough to make the grants that are --

13 CHAIRMAN DANA: With your permission, I would like
14 to move, if I can do that, Jeanine, that we move the \$17,000
15 so that you may issue all the grants in the law school
16 category that you indicated, and for the record, my
17 understanding is that our carry-over funds from the law school
18 grant line, from either this year or prior years --

19 MR. RICHARDSON: Prior years.

20 CHAIRMAN DANA: In the amount of \$62,000, and
21 management would like to use 17 and change this year. So I
22 would move that. Do you second that?

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1 MS. WOLBECK: Yes, I'll second it.

2 CHAIRMAN DANA: All those in favor say aye.

3 (Chorus of ayes.)

4 CHAIRMAN DANA: It's a vote. Then there is a \$4,000
5 and change sequester?

6 MR. RICHARDSON: That's correct, sir.

7 CHAIRMAN DANA: I would recommend that that be taken
8 from the board's -- hit the board. Our budget, we have a
9 modest surplus, at least in current vision, so that if that's
10 easy for you to do, I think that's easier, and I would so
11 move.

12 MS. WOLBECK: Second.

13 CHAIRMAN DANA: All you those in favor say aye.

14 (Chorus of ayes.)

15 CHAIRMAN DANA: Opposed?

16 (No response.)

17 CHAIRMAN DANA: It's a vote. Is there anything
18 else? God, this is wonderful.

19 MR. RICHARDSON: No, sir, that is it.

20 CHAIRMAN DANA: That's fine. I think that's
21 sufficient. I see that there are thousands of people out
22 there in the audience? Do any of you have anything you'd like

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1 to bring to our attention? We have another minute.

2 (No response.)

3 CHAIRMAN DANA: Hearing nothing --

4 MS. WOLBECK: I move that we adjourn.

5 CHAIRMAN DANA: I second it. All those in favor say
6 aye. It's a vote. Thank you.

7 (Whereupon, at 4:30 p.m., the committee meeting was
8 adjourned.)

9 * * * * *

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