

LEGAL SERVICES CORPORATION  
BOARD OF DIRECTORS

MEETING OF THE  
FINANCE COMMITTEE

Saturday, November 1, 2008

1:03 p.m.

The Hilton Hotel  
255 South West Temple  
Salt Lake City, Utah

COMMITTEE MEMBERS PRESENT:

Michael D. McKay, Chairman  
Thomas Fuentes (by telephone)  
Sarah Singleton  
Frank B. Strickland, ex officio

OTHER BOARD MEMBERS PRESENT:

Jonann C. Chiles  
Herbert S. Garten (by telephone)  
Thomas R. Meites (by telephone)  
Bernice Phillips-Jackson

## STAFF AND PUBLIC PRESENT:

Helaine M. Barnett, President  
David L. Richardson, Treasurer and Comptroller,  
Office of Financial and Administrative Services  
Victor M. Fortuno, Vice President for Legal Affairs,  
General Counsel, and Corporate Secretary  
Mattie Cohan, Senior Assistant General Counsel,  
Office of Legal Affairs  
Patricia D. Batie, Manager of Board Operations  
Charles Jeffress, Chief Administrative Officer  
Jeffrey E. Schanz, Inspector General  
Joel Gallay, Special Counsel to the Inspector General,  
Office of the Inspector General  
Thomas Coogan, Assistant IG for Investigations  
Matthew Glover, Associate Counsel, Office of the  
Inspector General  
Karen J. Sarjeant, Vice President for Programs and  
Compliance  
John Constance, Director, Government Relations and  
Public Affairs Office

Anne Milne, Executive Director, Utah Legal Services

Linda Perle, Center for Law & Social Policy (CLASP)  
Don Saunders, National Legal Aid and Defenders  
Association (NLADA)  
Deborah Hankinson, Chairman, Standing Committee on  
Legal Aid & Indigent Defendants (SCLAID), American  
Bar Association

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Motions: 5, 22, 29

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

2 (1:03 p.m.)

3 CHAIRMAN MCKAY: The first item on the agenda  
4 is approval of the agenda. Do I hear a motion?

5 MR. FUENTES: So moved.

6 CHAIRMAN MCKAY: Second?

7 MS. SINGLETON: Second.

8 CHAIRMAN MCKAY: all those in favor say aye.

9 (A chorus of ayes.)

10 CHAIRMAN MCKAY: Opposed?

11 (No response.)

12 CHAIRMAN MCKAY: The motion passes.

13 Second item is approval of the minutes. Let  
14 me ask that a couple of changes be made. Number one,  
15 they're just some format changes. In the absence of  
16 Lillian, I will just observe that there's format  
17 problems on the first page, and I'd ask that those  
18 corrections be made.19 On page 207 of the minutes, second  
20 paragraph -- excuse me -- the section entitled "Vote"  
21 or, I'm sorry, the paragraph that says, "Next, Chairman  
22 McKay asked that the committee reschedule its September

1 22 meeting because he had a trial-related conflict," I  
2 would ask that the minutes reflect that we agreed upon a  
3 meeting on October 14, 2008 and that I expressed  
4 gratitude to the committee and staff for this  
5 accommodation.

6 The other change I would ask is found on page  
7 208 at the end of the first paragraph. This is the  
8 paragraph that related to the budget shortfall. And it  
9 sets forth, I believe accurately, the circumstances  
10 surrounding it.

11 I would ask that a sentence be added at the  
12 end of that paragraph that reads as follows: "Some  
13 committee members expressed concern that this issue was  
14 not brought to the board sooner."

15 Do I hear any other comments or proposed  
16 amendments to the minutes?

17 M O T I O N

18 MR. FUENTES: Move the adoption.

19 CHAIRMAN MCKAY: I believe the motion is to  
20 move the adoption of the minutes as amended?

21 MR. FUENTES: Yes.

22 CHAIRMAN MCKAY: Do I hear a second?

1 MS. SINGLETON: Second.

2 CHAIRMAN MCKAY: All those in favor say aye.

3 (A chorus of ayes.)

4 CHAIRMAN MCKAY: Opposed?

5 (No response.)

6 CHAIRMAN MCKAY: The motion passes.

7 The next item on the agenda is a presentation  
8 on Legal Services financial reports for the year ending  
9 September 30, 2008. Mr. Richardson and Mr. Jeffress.

10 MR. RICHARDSON: Thank you, Mr. Chairman. For  
11 the record, my name is David Richardson, the treasurer  
12 of the Corporation.

13 Earlier this week, on Tuesday, I e-mailed to  
14 each of you the report that should be inserted into the  
15 board book. The memo is dated October 28th, and it is  
16 titled, "Preliminary September Financial Report."  
17 Within that report I explained the difference from the  
18 August 1st meeting.

19 We did increase the budget \$300,000 for the  
20 State Justice Institute money that helps support our  
21 technology initiative. And we have also received the  
22 reprogramming notice approval, so we have moved the

1 money from the loan repayment assistance program into  
2 management and administration.

3           The worksheet and the memo lay out the money  
4 that we have as far as remaining funds. We have two  
5 programs currently that are on short-term funded.  
6 Actually, one is on short-term funded, and that was the  
7 Nevada program, and then the money for the American  
8 Samoa program.

9           The U.S. Court of Veterans Appeals, we had  
10 some additional expenses, administrative, in the month  
11 of September. It actually was an accumulation of a  
12 number of months, so there's a small amount remaining  
13 that will go toward the administrative work that needs  
14 to be done next year.

15           And then the grants from other funds, we've  
16 gotten no awards this year. I understand there may be  
17 some in the coming weeks in regards to some hurricanes  
18 and storms along the coast, or at least there is some  
19 discussions along those lines.

20           There's the technology money. We've awarded  
21 30 technology grants that were completed in September.  
22 There was three that were delayed until the 1st of

1 October, and those will be expensed next month.

2 As far as the management and administration,  
3 with the \$500,000 additional money there, I'd originally  
4 given you a projection of 500,000 for that particular  
5 carryover. We are adding, of course, the 500,000 to  
6 that.

7 The carryover is shown on the report,  
8 remaining funds of 1.4 million. We do have the  
9 shortfall of interest that has to offset that. So the  
10 money that currently will go forward to support next  
11 year is \$1.26 million, and -- actually is \$1.266  
12 million, to help support next year's operations.

13 When you're looking at the temporary operating  
14 budget that follows, we had already forecasted a  
15 million with those two, so we do have some additional  
16 funds that will come back to you in January and add to  
17 the budget.

18 Absent that, you see that the loan repayment  
19 assistance program, the expenses, the amount remaining  
20 is 470. And then we have some awards, some loans that  
21 are in receivable that will be forgiven in the next  
22 quarter. So we do have some additional money,

1 approximately \$158,000, to help support next year's  
2 operations.

3 The IG: This year's budget, 3.8 million.  
4 Spent 2.97. So we do have carryover there of 845,000.

5 All of these numbers for management and  
6 administration and the IG will change slightly because  
7 in the last week, I aware that some additional expenses  
8 came into the office that would be paid. So we will  
9 probably be in the neighborhood of an additional 250,000  
10 that we'll be able to add to next year's operations for  
11 that.

12 I'll be glad to answer any questions. I know  
13 that's an abbreviated summary, and it's certainly laid  
14 out in the memo a little more detailed for each of you.

15 CHAIRMAN MCKAY: Your memo is very thorough,  
16 and we appreciate it.

17 Does anyone have any questions or concerns for  
18 David before we move on to Charles?

19 (No response.)

20 CHAIRMAN MCKAY: Charles?

21 MR. JEFFRESS: Thank you, Mr. Chairman. Just  
22 two comments. One, I'd like to express appreciation to

1 the office directors and staff of Legal Services  
2 Corporation. When we notified them in June of the  
3 pending shortfall for the next fiscal year, we asked  
4 them to reduce their spending, to cut back when they  
5 could.

6 And in fact, they did so, and we generated  
7 more carry-forward than we expected. And I'd like to  
8 have on the record an appreciation to the staff for  
9 their efforts to reduce spending so we could carry money  
10 forward to help the shortfall next year.

11 And secondly, after this fiscal year closed,  
12 as David indicated, we did get a request from Acadiana  
13 Legal Services in southwest Louisiana for emergency  
14 assistance following the hurricane. And that award has  
15 been approved by the president to that program.

16 CHAIRMAN MCKAY: Thank you. Anything further  
17 from the committee?

18 (No response.)

19 CHAIRMAN MCKAY: Thank you very much,  
20 gentlemen.

21 Next item on the agenda is a staff report on  
22 the status of the fiscal year 2009 appropriations

1 process. Mr. Constance.

2 MR. CONSTANCE: Thank you, Mr. Chairman. For  
3 the record, I'm John Constance, director of Government  
4 Relations and Public Affairs for the Corporation.

5 With thanks to the Congress for accommodating  
6 the schedule of this meeting, they haven't done much so  
7 we don't have too much to report. So we'll be able to  
8 move along. But let me report to you where we stand in  
9 terms of the 2009 budget picture.

10 As you are aware, I believe, on September 30th  
11 the President signed a continuing resolution that will  
12 fund most government agencies, including Legal Services  
13 Corporation at FY 2008 through March 6, 2009. Next year  
14 Congress will have to finalize the remaining nine FY  
15 2009 appropriations bills.

16 As we have previously reported, both the House  
17 and Senate appropriations committees recommended an  
18 increase of 11 percent from last year, from \$350 million  
19 to \$390 million for LSC for their FY 2009 funding.

20 One point that came up and was discussed as a  
21 part of the Finance Committee meeting in Washington was  
22 the issue of a possible year-long continuing resolution.

1 I've gone back to all of the senior folks that we were  
2 able to talk to on both the House and Senate  
3 appropriations committees to update my understanding of  
4 this in coming to this meeting.

5 And the House Appropriations Committee are  
6 still operating within the last two weeks of a direction  
7 from Congressman Obey, the chairman of the House  
8 Appropriations Committee, that they still have every  
9 intention of completing FY 2009 bills in regular order  
10 and not doing a year-long CR.

11 The Senate is a little bit more silent on the  
12 issue, and I don't know that you can read anything into  
13 that other than the recent health of the chairman of the  
14 Senate Appropriations Committee, Senator Byrd. But at  
15 this point at a staff level, I think everyone is  
16 preparing for that.

17 Everyone should also remember that March 6th  
18 is obviously not the beginning point for this but the  
19 end deadline. So we will be hearing, I don't know  
20 whether during the lame duck session that's planned to  
21 begin the week of November 17th, but clearly shortly  
22 after the first of the year I think we'll be hearing of

1 that activity and we will certainly report that back to  
2 the board at that time.

3 The other thing I wanted to bring to your  
4 attention today, as has been reported in the national  
5 press, congressional leadership is working on a second  
6 economic stimulus package, and the White House has  
7 expressed its support at least for the concept of this.

8 The package is expected to move when the Congress  
9 returns in November for that lame duck session the week  
10 of November 17th.

11 And I wanted to specifically report that the  
12 Senate draft of that package still includes \$37.5  
13 million to LSC, and I quote, "to provide legal  
14 assistance related to home ownership preservation, home  
15 foreclosure prevention, and tenancy associated with  
16 foreclosure."

17 CHAIRMAN MCKAY: What's the amount, again?

18 MR. CONSTANCE: Beg your pardon?

19 CHAIRMAN MCKAY: What was the number?

20 MR. CONSTANCE: \$37.5 million.

21 CHAIRMAN MCKAY: Thank you.

22 MR. CONSTANCE: This is basically the same

1 text that Senator Mikulski tried to insert in the  
2 housing foreclosure bill in this past session of  
3 Congress. I would also add that the language further  
4 stipulates that priority would be given to the hundred  
5 metropolitan statistical areas with the highest home  
6 foreclosure rates, and that they're very interested in  
7 any kind of money through this process of coming out 90  
8 days after the receipt of the funds by LSC.

9           This was language that generated a certain  
10 amount of, certainly, debate and controversy in the  
11 foreclosure bill. This is the reason it did not wind up  
12 in the final housing and foreclosure bill.

13           So, you know, in terms of giving you any kind  
14 of indication about what it's health or future will be  
15 in the stimulus package, I'm unable to do so. But we  
16 will certainly keep you informed going forward as to  
17 whether that survives. It is in the Senate version of  
18 the stimulus package and that is, I believe, the version  
19 that is intended to be taken up the week of November  
20 17th.

21           CHAIRMAN MCKAY: Thank you. We sure  
22 appreciate -- I sure appreciate and I'm confident

1 everyone else appreciates your e-mail reports on the way  
2 things are progressing in Congress. And I would  
3 encourage you to continue that, to let us know any  
4 significant development.

5 MR. CONSTANCE: Thank you very much. I  
6 certainly will.

7 CHAIRMAN MCKAY: Any other questions or  
8 comments?

9 MS. PHILLIPS-JACKSON: Mike?

10 CHAIRMAN MCKAY: Yes, Bernice?

11 MS. PHILLIPS-JACKSON: I don't have any  
12 questions about the presentation.

13 CHAIRMAN MCKAY: Microphone.

14 MS. PHILLIPS-JACKSON: I don't have any other  
15 questions about the presentation. I was just wondering,  
16 I know Sarah suggested at another meeting that we should  
17 go line by line with management for the proposed FY  
18 2009. I was wondering if that was done.

19 Also, because I like to know what -- where  
20 monies are being taken from, what offices monies are  
21 being taken from, and where they're -- and who they're  
22 given to. I just wanted to know what effects that would

1 have on the offices that money are being pulled from.

2 MR. JEFFRESS: Help me a minute, if you would.

3 For the fiscal year '09 cutbacks compared to the fiscal  
4 year '08 budget? Is that the concern you're talking  
5 about?

6 MS. PHILLIPS-JACKSON: The 2009 proposed  
7 budget, FY 2009 proposed budget.

8 MR. JEFFRESS: That will be before you in just  
9 a minute, yes.

10 MS. PHILLIPS-JACKSON: Right.

11 MR. JEFFRESS: And compared to the 2008  
12 budget?

13 MS. PHILLIPS-JACKSON: Where monies -- didn't  
14 we go line by line to see where we were taking money,  
15 what offices we were taking money from?

16 MR. JEFFRESS: Right. Well, certainly in the  
17 management staff we did.

18 MS. SINGLETON: I'm sorry. Could you repeat  
19 that?

20 MR. JEFFRESS: Sure. I said certainly in the  
21 management consideration we did, and David can talk more  
22 about that if you like. But in terms of a board member

1 or subset of board members going line by line, other  
2 than providing you the written materials, I can't say  
3 that we've had a meeting to discuss that with board  
4 members on an office-by-office, line-by-line item.

5 MS. PHILLIPS-JACKSON: Is that in the near  
6 future? Did we plan to do that? Are we going to do  
7 that? What --

8 MR. JEFFRESS: We'll be happy to respond to  
9 whatever the committee desires.

10 CHAIRMAN MCKAY: Well, clearly management's  
11 doing that. It's really up to you whether or not you  
12 want us to go through that, to do that.

13 MS. PHILLIPS-JACKSON: I would like to see  
14 that done.

15 CHAIRMAN MCKAY: I would envision that to be a  
16 pretty time-consuming process. Are you talking about  
17 going through what we did this past year to deal with  
18 the shortfall?

19 MS. PHILLIPS-JACKSON: I guess, yes, to --

20 CHAIRMAN MCKAY: Well, it's pretty much been  
21 done. And maybe the easiest thing to do is to ask  
22 management to prepare a memo to the committee so that

1 you can see what was done. I know it's been discussed  
2 at our meetings, and it was discussed at our last  
3 meeting and on the telephone call in August.

4 But if you'd like to see, finally, now that  
5 the fiscal year is over, what adjustments were made to  
6 deal with the shortfall, I'm sure management can throw  
7 together a memo and send it to the committee rather than  
8 have us take the time to go through it.

9 And then of course after reviewing that memo,  
10 if you have any questions, you can either pose them to  
11 management or raise them at the Finance Committee  
12 meeting in January, if that's satisfactory.

13 MS. PHILLIPS-JACKSON: Okay.

14 CHAIRMAN MCKAY: Thank you. Any other  
15 questions or comments?

16 (No response.)

17 CHAIRMAN MCKAY: All right. Thanks so much,  
18 John.

19 The next item is consider and act on  
20 Resolution 2008-016, a temporary operating budget for  
21 fiscal year 2009. Mr. Richardson and Mr. Jeffress. And  
22 I invite your attention to page 214 of the board book.

1           MR. RICHARDSON: On pages also 212 and 213,  
2 you'll see the supporting information for that. You'll  
3 see the budget that we have projected broken out with  
4 the delivery of legal assistance, management and  
5 administration, and then the loan repayment assistance  
6 and inspector general.

7           The total budget that we are asking that you  
8 approve is \$356,733,792. Of that, you'll see that of  
9 course the vast majority, 338 million, is going to the  
10 field. Management's budget request at this point is 14  
11 million, the loan repayment assistance is 970,000, and  
12 then the IG is 3.7 million.

13           On the next page, you'll see a breakdown by  
14 office. Some of the key areas here that you'll see that  
15 this supports five board meetings, and two of those to  
16 be held in Washington, three in other areas throughout  
17 the United States. It supports 85 staff positions in  
18 management and 23 in the inspector general.

19           And then, of course, I've laid out the key  
20 areas here as far as spending. We've got the executive  
21 office travel budget of 50,000. The legal affairs,  
22 outside legal fees of 150,000, a key area. The rent, of

1 course, is budgeted at 1.66 million.

2 We have 312,000, just hitting the high parts  
3 here, the key parts as far as other operating expenses  
4 in management and administration. That also includes  
5 directors and officers insurance, which we just renewed  
6 on Tuesday of this week, and the cost this year is  
7 \$146,872. That's included in the figure.

8 In the information management, you'll see  
9 other operating and expenses of 103,000. That's for our  
10 software upgrades and also the yearly fees that we are  
11 charged there. 60,000 is for the telephone usage in  
12 that particular budget.

13 And the other key areas, as you look at  
14 program performance, you'll see consulting of 110,000  
15 and the travel of \$164,500. And in compliance, you'll  
16 see 100,000 in consulting and 190 in travel. Those are  
17 the key areas and key components that's combined in  
18 management and administration's budget.

19 The OIG activities, they certainly have a  
20 great deal of activities planned with some computer  
21 purchases and upgrades to their systems that they have  
22 planned. They also have a great deal of travel and

1 consulting budgeted, 281,000 for consulting, travel  
2 180,000 for their audit service reviews and other  
3 travel. And again, that is 23 staff members that the is  
4 budgeting.

5 I'd be glad to answer any questions that you  
6 may have. As I pointed out in the last presentation, we  
7 do have an additional about 250,000 that we will come  
8 back to you in January that will be added to the  
9 temporary operating budget. And of course, with the  
10 news that John Constance just gave you in regards to the  
11 appropriation, we certainly hope for additional money.

12 That would certainly take some of the edge off  
13 on some of the financial restraints we have. So we're  
14 hoping later in the year to be able to come back after  
15 the appropriation and approve a higher budget year also.

16 CHAIRMAN MCKAY: Thank you. Questions or  
17 comments?

18 (No response.)

19 CHAIRMAN MCKAY: And the number contained here  
20 in Resolution 2008-016, how is that different from the  
21 temporary operating budget we previously approved?

22 MR. RICHARDSON: It is the same figure.

1           CHAIRMAN MCKAY: Okay. So this is -- there's  
2 no change? This is consistent with what we previously  
3 discussed?

4           MR. RICHARDSON: What we asked before was that  
5 you grant us temporary operating authority along these  
6 lines. But we did not provide you with any additional  
7 background as to the breakout within management and the  
8 IG as to how we would operate.

9           CHAIRMAN MCKAY: And that's found on the  
10 previous two pages?

11          MR. RICHARDSON: Yes.

12          CHAIRMAN MCKAY: All right. Do I hear a  
13 motion with regard to this resolution?

14                                   M O T I O N

15          MS. SINGLETON: Move the approval -- or move  
16 we recommend the approval of Resolution No. 2008-016.

17          CHAIRMAN MCKAY: Do I hear a second?

18          MR. STRICKLAND: Second.

19          CHAIRMAN MCKAY: Discussion?

20                                   (No response.)

21          CHAIRMAN MCKAY: Time for a vote. All those  
22 in favor say aye.

1 (A chorus of ayes.)

2 CHAIRMAN MCKAY: Opposed?

3 (No response.)

4 CHAIRMAN MCKAY: The motion passes. Thank you  
5 very much.

6 Next item on the agenda is a discussion  
7 regarding best practices concerning what information  
8 management should be providing to the board, and how and  
9 when it should be provided. And as an effort to  
10 facilitate this conversation, particularly since we have  
11 some time constraints here, I asked management to  
12 prepare a memorandum which summarized the key issues so  
13 we did not need to take the time at this meeting today  
14 to go through them.

15 And I think it's a very good memo, but I  
16 discovered to my consternation it was sent just to  
17 Finance Committee members and not the entire board. And  
18 that was my fault for not catching that and asking that  
19 it be sent off to the entire board.

20 So I'm wondering if, since it's a memo from  
21 you, Charles, and even though you worked closely with  
22 Vic and me and others to prepare it, I'm wondering if

1 you could just briefly summarize what's in the memo for  
2 the benefit of those who did not have a chance to review  
3 it.

4 I do want to confirm that members of the  
5 committee received it. There were two memos, but the  
6 latest draft is dated October 29th from Charles to me,  
7 which is a two-page memo plus a copy of the  
8 organizational chart. Everyone got it, then?

9 MS. SINGLETON: Oh, yes.

10 CHAIRMAN MCKAY: Yes. Thank you, Charles.  
11 Thank you.

12 MR. JEFFRESS: As you indicated, Mr. Chairman,  
13 you and I and Vic had a number of conversations about  
14 the issues surrounding the last couple of finance  
15 committee meetings and reports to the board. And I  
16 summarized the results of those conversations in this  
17 memo.

18 Two points, I think, to make. One is that  
19 clearly board members felt like there was insufficient  
20 notice given to the board about the need for making  
21 budget reductions in FY '09 in order to -- even though  
22 management had been aware of the potential shortfall

1 should Congress produce a flat appropriation for us this  
2 year.

3           Therefore, the fix here is for us, for David  
4 and I and anyone else -- any other officer of the  
5 Corporation, for that matter, to make sure that we  
6 provide the board at these quarterly meetings with  
7 whatever projections, whatever things coming up that we  
8 see so that you're aware of them and you have the  
9 opportunity to think about them should you desire to  
10 make any considerations, any changes, any modifications  
11 to the budget.

12           So David and I in particular, in the course of  
13 these quarterly reports to you, will call your attention  
14 to any projections of things that might happen in the  
15 upcoming year that we're aware that you might want to be  
16 aware of. And in consideration of that, I had a few I  
17 was going to make with respect to this '09 budget, and I  
18 will do when we finish this conversation.

19           The second point was a reemphasis of the point  
20 that officers of the Corporation, executives of the  
21 Corporation, are expected to communicate directly to the  
22 board in the discussion about the budget shortfall and

1 the potential reprogramming.

2           There was a concern expressed that the general  
3 counsel had a question about the nature of the  
4 reprogramming, and that question was not presented to  
5 the board along with management's recommendations. It  
6 came along later.

7           And this served as a reminder to all of us,  
8 and we've discussed this in our executive team, that  
9 officers and executives of the Corporation are expected  
10 to communicate to the board their views, particularly if  
11 they feel like the views are not communicated  
12 sufficiently as a part of management's recommendations.

13       But in any case, to communicate directly to the board.

14           CHAIRMAN MCKAY: Thank you. I think these  
15 facts are pretty well understood, but are there any  
16 questions or concerns about this before we open it up  
17 for discussion about the underlying facts?

18           (No response.)

19           CHAIRMAN MCKAY: Okay. Well, then, let's just  
20 open it up for discussion. And if I may, I'd like to  
21 begin. And I do thank you, Charles, in particular for  
22 taking the time to put these facts together so that we

1 have them and they're agreed upon by everybody.

2           And I've given quite a bit of thought to this.

3       And indeed, as part of my analysis, I asked you to send  
4 a copy of our organizational chart. And I was surprised  
5 to see that there was not a dotted line relationship  
6 between our treasurer and the board and between our  
7 general counsel and the board.

8           And while we've certainly made it clear  
9 verbally over the years how important it is that these  
10 two individuals, and indeed, as you indicated, anyone  
11 else in upper management, feels compelled to speak to  
12 us, that they should. And Helaine and others have made  
13 that clear that that is important.

14           These two positions are particularly unique,  
15 with unique obligations and unique duties, not just as  
16 part of management but duties to the board. And  
17 recognizing that the proposal I'm about to make might  
18 bump up against the jurisdiction of Ops and Regs, I did  
19 take the liberty of calling Mr. Meites to let him know I  
20 was going to make this proposal.

21           And that is to propose that there be a dotted  
22 line relationship between the treasurer and the board of

1 directors and between the general counsel and the board  
2 of directors, and asked if he would mind that I made the  
3 proposal here; assuming the Finance Committee approved  
4 it, that we'd make the direction directly to the board.

5           And because of our poor telephone connection  
6 with Chicago, he authorized me to communicate that he  
7 did not see this as a significant invasion on his  
8 jurisdiction and prerogatives, and indeed would support  
9 the suggestion as well.

10           So I am proposing that we amend the  
11 organizational chart to add the dotted line  
12 relationship, really as a reminder to these two  
13 important players in management how important this is,  
14 reminding us as the members of the board of directors  
15 their important role. And I'm sure management, the rest  
16 of management, understands and supports us as well  
17 because we've all said this.

18           But I think it's important, in the wake of  
19 this set of circumstances that we've just described,  
20 that we take this step. I'm not sure if as chair I can  
21 make that motion, but I'm wondering if someone would  
22 consider making the motion.

1 M O T I O N

2 MR. FUENTES: I'd like to move that as  
3 proposed by the chairman.

4 CHAIRMAN MCKAY: Thank you. Do I hear a  
5 second?

6 MS. SINGLETON: Second.

7 CHAIRMAN MCKAY: Discussion?

8 MS. PHILLIPS-JACKSON: I have a question.  
9 This organizational chart now will have general counsel  
10 and the treasurer speak directly to the board, did you  
11 say?

12 CHAIRMAN MCKAY: It would be -- and maybe it  
13 would be helpful if Vic came to the table and talked to  
14 us a little bit. I'll tell you what I think it means.  
15 It will maintain the reporting responsibility -- do you  
16 have a copy of the organizational chart in front of you?

17 MS. PHILLIPS-JACKSON: No.

18 CHAIRMAN MCKAY: Helaine, do you mind handing  
19 that down to Bernice? Right now the two of them  
20 report -- the general counsel reports to the president,  
21 and I believe the treasurer reports to Mr. Jeffress.

22 But there's a dotted line between the

1 treasurer and the president, that making it clear --  
2 Helaine's made it clear that she wants to hear directly  
3 from the treasurer, now in the same way we want to  
4 formally put that down there.

5           So it's really -- David will still report to  
6 Mr. Jeffress, and Vic will still report to the  
7 president. But this motion will simply make it clear  
8 that if at any time they feel that they should be  
9 reporting to us directly about any fact or legal concern  
10 or financial concern, they will do so.

11           And I'm assuming they'll be simultaneously  
12 communicating to the president and Charles and others  
13 that they're doing it. But we would like to hear it  
14 directly. And that's the way I see it.

15           Vic, is that a layman's interpretation?

16           MR. FORTUNO: I think that was well put. I  
17 believe it's going to reconcile the formal  
18 organizational chart with what is the understanding that  
19 has been communicated, that we should be feeling free to  
20 communicate directly with the board on any significant  
21 concerns if -- and not otherwise being communicated.

22           And right now, the organizational chart

1 doesn't have that. The organizational character, if you  
2 look just at the chart, all communications would have to  
3 go through -- I guess it's through the president to the  
4 board, or in some instances through the chief  
5 administrative officer to the president to the board.

6           So what I understand this would do is simply  
7 reconcile the chart, the formal organizational chart,  
8 with what has evolved as our practice, and nothing more.

9           CHAIRMAN MCKAY: Thank you.

10           MS. PHILLIPS-JACKSON: And also, Charles, you  
11 mentioned something about the shortfall and reporting  
12 something like that quarterly. We wouldn't have to  
13 wait -- if something like that occurred again, we  
14 wouldn't have to wait quarterly to get that report. You  
15 would inform us sooner, or as soon as possible.

16           MR. JEFFRESS: Yes. I think the point was  
17 David and I had mentioned it to the board, you know, 18  
18 months previously, but did not on a quarterly basis keep  
19 that in front of you. And we will do that in the  
20 future. So it will be -- absolutely as much advance  
21 notice as we have, you will have.

22           MR. GARTEN: Herb Garten here. Can I ask a

1 question?

2 CHAIRMAN MCKAY: Yes.

3 MR. GARTEN: I would assume that it would  
4 also, based upon what you said, that you would also  
5 assume that these would be extraordinary circumstances  
6 where they would go directly to the board.

7 CHAIRMAN MCKAY: Well, I just -- it depends on  
8 what you mean by extraordinary. Yes, I don't see it as  
9 a day-to-day set of communications. I'm just a little  
10 nervous about the term "extraordinary."

11 I would prefer to leave it to the sound  
12 discretion of these two people in whom we've placed a  
13 great deal of trust that if they think we should know  
14 about something, they should tell us, whether it's  
15 extraordinary or not.

16 MR. GARTEN: Right. But basically, we're  
17 not -- this is not intended to undermine the authority  
18 of the president.

19 CHAIRMAN MCKAY: Not at all.

20 MR. GARTEN: That's sufficient for me.

21 CHAIRMAN MCKAY: Say that again one more time?

22 MR. GARTEN: I said that's sufficient for me.

1                   CHAIRMAN MCKAY: Thank you. Sufficient for  
2 you. Thank you.

3                   Any other questions or comments?

4                   (No response.)

5                   CHAIRMAN MCKAY: Shall we have a vote on this  
6 motion? All those in favor of amending the  
7 organizational chart to add those dotted line  
8 relationships that were enunciated in the motion, say  
9 aye.

10                  (A chorus of ayes.)

11                  CHAIRMAN MCKAY: Opposed?

12                  (No response.)

13                  CHAIRMAN MCKAY: The motion passes. Thank you  
14 very much.

15                  It's time for public comment. Does anyone in  
16 the public have anything to say?

17                  (No response.)

18                  CHAIRMAN MCKAY: Hearing none, is there any  
19 other business that the committee would like to address?

20                  (No response.)

21                  CHAIRMAN MCKAY: Time for a motion to adjourn.

22                  MR. MEITES: Mike?

1                   CHAIRMAN MCKAY:  Yes?  Yes, Tom?

2                   MR. MEITES:  I thought Sarah had something to  
3 propose.

4                   MS. SINGLETON:  At the board meeting.

5                   CHAIRMAN MCKAY:  I'm sorry.  I didn't hear it.

6                   MS. SINGLETON:  Tom said he thought I had  
7 something to propose, but I'm proposing it at the board  
8 meeting because Finance Committee action is closed on  
9 that issue.

10                  MR. MEITES:  Thank you.

11                  CHAIRMAN MCKAY:  Thank you very much.

12                  (Whereupon, at 1:37 p.m., the Finance  
13 Committee meeting was adjourned.)

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