MEETING OF THE AUDIT COMMITTEE
OPEN SESSION

Friday, January 28, 2011
11:32 a.m.

Legal Services Corporation
3333 K Street, N.W.
Washington, D.C.

COMMITTEE MEMBERS PRESENT:
Victor B. Maddox, Chairperson
Harry J.F. Korrell, III
Gloria Valencia-Weber

OTHER BOARD MEMBERS PRESENT:
Laurie Mikva
Martha L. Minow
Julie A. Reiskin
STAFF AND PUBLIC PRESENT AT THE CORPORATION'S OFFICES:

Victor M. Fortuno, Interim President
Patricia D. Batie, Corporate Secretary, Office of Legal Affairs (OLA)
Stephen Barr, Director, Media Relations
Janet LaBella, Director OPP
Ann Carmichael, American Bar Association
Tom Coogan, Assistant Inspector General for Investigations
Joel Gallay, Special Assistant to the Inspector General
Dan Sheahan, Program Evaluation Analyst, Office of Inspector General
David L. Richardson, Treasurer and Comptroller
David Maddox, Assistant Inspector General for Management and Evaluation
Cynthia Schneider, Deputy Director, OPP
Mark Freedman, Senior Assistant General Counsel, Office of Legal Affairs (OLA)
Rebecca Weir, Special Counsel to the President
Mattie Cohan, Senior Assistant General Counsel, Office of Legal Affairs
Laurie Tarantowicz, Assistant Inspector General and Legal Counsel
Jeffrey E. Schanz, Inspector General
Ronald "Dutch" Merryman, Assistant Inspector General for Audits
John Meyer, Director, Office of Information Management (OIM)
Don Saunders, National Legal Aid and Defenders Association (NLADA)
Eric R. Jones, Network/Systems Engineer, OIT
Lavon Smith, Network/Systems Engineer, OIT
Robert E. Henley, Jr. (Non-Director Member Finance Committee)
Uzma Malik-Dorman, Thompson, Cobb, Bazilio and Associates
Alice Dickerson, Director, Office of Human Resources
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CHAIRPERSON MADDOX: All right. I'm going to start the meeting of the Audit Committee of the Legal Services Corporation. And I'm going to note the presence of a quorum. Can all of the members identify themselves for the record.


MR. KORRELL: Harry Korrell.

CHAIRPERSON MADDOX: And I'm the chairman of the Committee, Victor Maddox.

The first item of business today is the approval of the agenda for the January 28, 2011, meeting. Is there a motion to approve the agenda?

MOTION

MS. VALENCIA-WEBER: I so move.

MR. KORRELL: Second.

CHAIRPERSON MADDOX: All in favor?

(Chorus of ayes.)

CHAIRPERSON MADDOX: The motion is approved and the agenda is approved.

The second item is the approval of the minutes
of the Committee's open session of October 19, 2010.

Is there a motion to approve those draft minutes?

MOTION

MR. KORRELL: So moved.

MS. VALEN西亚-WEBER: I'll second.

CHAIRPERSON MADDOX: All in favor?

MR. KORRELL: Aye.

CHAIRPERSON MADDOX: And Gloria?

MS. VALEN西亚-WEBER: Yes.

CHAIRPERSON MADDOX: And the motion and the draft minutes of October 19, 2010, are agreed to.

Item number three on our agenda is the presentation of the fiscal year 2010 annual financial audit. And we have with us today the inspector general and Ronald Merryman of his office, and Uzma Malik-Dorman --

MS. MALIK-DORMAN: Very good.

CHAIRPERSON MADDOX: -- with Thompson, Cobb, Bazilio and Associates. I think we've met on the phone.

MS. MALIK-DORMAN: Yes.

CHAIRPERSON MADDOX: And it's nice to meet you
in person.

MS. MALIK-DORMAN: Nice to meet you too.

CHAIRPERSON MADDOX: I guess we're good to go. So I will turn it over to our panel. Mr. Schanz?

MR. SCHANZ: I will defer to the auditors who are with me at the table. And you've all received a copy of the audited financial report at the nth minute. I do apologize for that, but you do have the report.

CHAIRPERSON MADDOX: Let's just hang on just one second --

MR. SCHANZ: Okay.

CHAIRPERSON MADDOX: -- to make sure that we're okay here.

(Phone hook up.)

CHAIRPERSON MADDOX: Thank you, Pat. Mr. Merryman?

MR. MERRYMAN: Yes, sir. Thank you very much. Just a few general words. The audit again this year was without a material weakness or significant problems. Uzma will give a more detailed briefing than I will. There is some -- a one letter on control deficiencies that are not considered significant
weaknesses, and she will talk about those also.

We provide you with four documents. One is the financial statement audit, one is the internal controls over financial reporting in compliance with certain laws and regulations, one is the control deficiency, and one is a communication document that is required by standards with the Board. So again, no material or significant issues were developed or noted during the audit. And I will now turn it over to Uzma.

MS. MALIK-DORMAN: Thank you so much. Good morning, everyone. My name is Uzma Malik-Dorman. I was the engagement partner on the audit of the financial statement of the Legal Services Corporation for fiscal year 2010. The first report that you have in your packet is the actual report, or opinion, on the financial statements of the entity for 2010. And we have issued -- I'm pleased to say that we have issued a clean opinion, that's an unqualified opinion, for fiscal year 2010.

You'll see in the second paragraph of the report, which is on page 1, independent auditors' report, we also conducted the audit in accordance with
government auditing standards. That requires us to issue a separate report also on the organization's internal control over financial reporting, and also on the compliance with laws and regulations and contracts and grant agreements. And that is separate in your packet as, I guess, like --

MR. MERRYMAN: Is this the green tab?

MS. MALIK-DORMAN: The green tab. We did not identify -- and if you go to the green tab, you'll see our report on internal control over financial reporting and compliance. We did not identify any significant deficiencies and internal control or any material weaknesses, which is a very good thing.

We did notice some control deficiencies, which are in the blue tab, I believe, of your package. That's a separate report, separate letter, really, that we issued on certain matters that we, you know, thought we would recommend that controls be improved. One of the areas is performance evaluations not being performed timely. You'll see that in the blue tab, again, on the first page on the bottom.

On the second page, we also had an observation
relating to long outstanding liabilities and compliance
issues relating to TIG grants, which I'm sure you're
aware of the report that was issued by the Office of
Inspector General.

So we -- this was an observation, also, from
the last fiscal year. And so it's repeated again here
as item number 2 on page 2. And then the last item is
on page 4. We are recommending that you improve
controls over granting -- revoking logical access to
network and applications. So again, these are not
considered to be significant deficiencies or material
weaknesses. If they were, they would be in the second
report that I discussed.

During the audit -- and if you could go to the
red tab, you'll see these are some of the
communications that we are required to make and report
to the audit committees, since you're in charge of
governance of the financial reporting process of the
Legal Services Corporation. We did not have any
problems.

So starting on page 1 of the red tab, just let
me summarize the report. Not in any specific order
here, but we did not have any problems obtaining any
information. We requested items, I guess in the
planning stage, also during field work, and we did not
have any problems with management obtaining
information.

We did not have any disagreements relating to
any accounting related matters or financial reporting
relating matters. The management judgments and
accounting estimates, we consider depreciation to be a
significant estimate in the financial statements, and
we do annually test the fairness of depreciation, and
we consider it reasonable.

The disclosures in the report, the first
report that we went over, are considered adequate and
in accordance with standards. So we didn't have any
issues with the disclosure requirements. We also did
not have any audit adjustments.

Again, we talked about the significant
deficiencies and material weaknesses. We did not
identify any. And there were no major issues that were
discussed with management prior to our retention as
auditors.
So that concludes my report. I would be happy to answer any questions.

CHAIRPERSON MADDOX: Well, let me just start and say thanks, first of all, for the report, and for ultimately the opinion. I have one question, I guess, about the process, and this goes as much to the OIG as well as to you. I mean, I just got the report 10 or 15 minutes ago. So I can't give any substantive analysis. I can't even really talk meaningfully about it. So that's a problem I think for myself, as well as for the Committee members.

You know, the Committee was created because the GAO found that there was basically a deficiency in the Corporation's corporate governance by the lack of a committee, and while I think all of us have varying degrees of financial expertise, I may have as much as anybody on the Committee, but -- I actually studied accounting in college and worked as an intern for what was then a Big 8 accounting firm. That tells you how long ago it was.

But, you know, I'm not an auditor. So I guess given that it looks like the process internally worked
well -- there were no disputes; there were no substantive issues -- is there something we can do to improve our process so that we get this report, you know, a week or two in advance of our annual meeting?

MR. MERRYMAN: The intent was for the report to be finished by the 15th. That's what we tried to set this up as.

CHAIRPERSON MADDOX: Right.

MR. MERRYMAN: We did have some discussions, I believe it was on the 13th, and some additional questions, you know, work was done. But the biggest thing that happened this year was a confirmation letter from the bank. Though it was requested in time, the bank's records indicated it was mailed, it was not, evidently, received. And a second request went out for the statement or for the confirmation. That was not received, I believe, until last Friday. And because of that, we couldn't release the report.

CHAIRPERSON MADDOX: Right.

MR. MERRYMAN: And that was -- that's the only reason why you didn't get it sooner.

CHAIRPERSON MADDOX: Right.
MR. MERRYMAN: And once that confirmation came in and the final work done on that and we received a copy of the final reports, I believe it was Wednesday evening, via e-mail, we immediately put together the reg with the letter to try to transfer it to people. But unfortunately, the Board was traveling.

CHAIRPERSON MADDOX: I guess there -- I mean, there is nothing we can do, any of us can do, to keep that from happening. I hate to be at the mercy of the accounts payable clerk, you know, at the bank who might be on vacation. Is it possible, is there a -- is it possible to prepare us with a draft of those parts of, you know, the audit that are complete?

I mean, presumably testing an account is not going to hold up 95 percent of the report. And I just, I mean, internally the members of the Committee might get it in advance so that we, you know, we have a chance to look at it and prepare.

MS. MALIK-DORMAN: Absolutely. I mean, I don't have a problem with that at all. And in fact, the draft has been done for some time.

CHAIRPERSON MADDOX: Sure.
MS. MALIK-DORMAN: So certainly -- and I just wanted you to note that even though this report is dated January 7th, we could not issue until we did receive the confirmation.

CHAIRPERSON MADDOX: Right.

MS. MALIK-DORMAN: That's why there is a gap.

CHAIRPERSON MADDOX: Right.

MS. MALIK-DORMAN: I just wanted to point that out.

CHAIRPERSON MADDOX: You couldn't complete your opinion until then.

MS. MALIK-DORMAN: Right. Correct.

MS. VALENCIA-WEBER: And we would not want you to.

MS. MALIK-DORMAN: Right. But I don't have a problem with the audit committee, of course, having a draft.

CHAIRPERSON MADDOX: I just think, let's think about that next year so that, you know, we have a chance to look at the footnotes, and whatnot, ahead of time. The footnotes are always where the interesting stuff is anyway.
CHAIRPERSON MADDOX: Any other suggestions or comments?

MS. VALENCIA-WEBER: I would join on that because if you had grants or other things where you, again, have to submit reports, generally you see the draft before it's submitted. And there is parts always hanging out, you know, even though you made your best effort to get it timely. But it's not delivered. So you just put in those places to be received or whatever. But as you said, you've done 90 percent of the report. So for us, we can begin to plow through that.

MS. MALIK-DORMAN: Right.

MS. VALENCIA-WEBER: So then we, you know, just tab and mark where we're going to do the looking when you get all of your documents.

CHAIRPERSON MADDOX: I mean, also keep in mind, reading these reports is your bread and butter and for us, at least --

MS. VALENCIA-WEBER: We have to shift.

CHAIRPERSON MADDOX: -- it's kind of like a
different exercise altogether.

MS. MALIK-DORMAN: Absolutely. I understand.

CHAIRPERSON MADDOX: So we need a little extra help.

Let me ask one other question while I've got you. I want to make sure I understand what it is you do on the internal control aspect of it. Your report on internal control over financial reporting and compliance said that you considered the internal controls as a basis for your audit, but you don't express an opinion on the effectiveness of the internal controls. So this is something of a nuance of the accounting profession I know. Can you explain a little more, you know, for a layman, exactly how that distinction falls out.

MS. MALIK-DORMAN: Sure. We look at internal controls over key accounting and financial reporting processes and then also key controls over compliance with laws, regulations, and any significant contracts, grant agreements. So we don't look at internal control, all controls. We only -- because we have to rely on controls or else we would have to do a lot more
work, substantive work.

So we will highlight -- we will focus on, for example, your closing process or your key controls over cash disbursements, cash receipts compliance with laws and regulations. And we will, on a sample basis, we will select transactions for testing. And then based on the results of that testing, if we think we can rely on your controls, we can then reduce the amount of substantive audit procedures that we perform basically testing account balances. You know, we can reduce the amount. But if we find that we cannot rely on the controls, we'll have to do more procedures.

Part of the control work is also because a lot of the information is processed through systems, we have to -- we have information technology auditors that review the controls surrounding your systems because, obviously, everything is processed through those systems and we have to rely on those or else we would have issues.

But again, we do not -- like this report is saying, we do not express an opinion on your internal controls because there are so many controls around
here, but we don't -- we only focus on key controls of
that we need to rely on to get our substantive audit
procedures done. So that's why we're not expressing an
opinion on the operating effectiveness of your controls
overall.

MR. MERRYMAN: If I may add to that. First of
all, in order to give an opinion over internal -- on
internal controls, the effectiveness, we call it
examination. It's an audit, but it requires a whole
different set of requirements of management, a whole
different set of requirements of the auditors. And the
testing, the type testing, it requires management to
document their controls, to test their controls, to
accept responsibility for their controls, make
representations that they have done these type of
things.

There is a lot of work that goes into it
before you can give an opinion on controls. And this
is one of the things that we look at and struggle with,
you know, from the grantees' standpoint. We look at
the standards that auditors would have to follow, the
amount of work that would have to be done, the cost
sets involved in order to get that. So there is a lot
more work that has to be done to go to that next step.
The auditors are required, if they see
anything material or significant, to report it,
obviously. And then if they see opportunities for
improvement, like in the deficiencies, to let
management know. But they have not done the amount of
work required by standards in order to express an
opinion on the system of controls.

MS. VALENCIA-WEBER: So to have that kind of
opinion, you would have to have at least a different
set of protocols as to standards and then you would
also have to have possibly a different set of
professionals in the audit besides those you presently
have?

MS. MALIK-DORMAN: No.

MR. MERRYMAN: No.

MS. MALIK-DORMAN: It would be the same
professionals. Yeah.

MS. VALENCIA-WEBER: Most of the protocol
standards.

MR. MERRYMAN: Protocols would be different
and there would be different requirements for management too.

MR. KORRELL: This is Harry. And I think I may just be -- I mean, I think I'm just restating to make sure I understand it because Vic, I marked the same -- I made the same note to myself to make sure I understood.

Is what you're saying that you need to rely on the internal controls that are there in the course of doing your audit of the financial statements and that in doing so, you use them and look at them and did not find them deficient? So you could rely on those internal controls --

MS. MALIK-DORMAN: Right.

MR. KORRELL: -- to allow you to do the audit of the financial statements.

MS. MALIK-DORMAN: Right.

MR. KORRELL: But which you have not done any audit of the internal controls, even the financial reporting internal controls.

MS. MALIK-DORMAN: We haven't done a separate audit on internal controls.
MR. KORRELL: I mean, but what I'm looking at is the sentence at the end of that paragraph that Vic mentioned, "We do not express an opinion on the effectiveness of LSC's internal controls over the financial reporting."

MS. MALIK-DORMAN: Right.

MR. KORRELL: So there is not an opinion on that.

MS. MALIK-DORMAN: Correct.

MR. KORRELL: Though you did, you had to use them and did not find them deficient in the process.

MS. MALIK-DORMAN: We looked at controls. Right.

MR. MERRYMAN: See, there is two things with controls. One, you have got to look at the design to begin with. Is it designed properly. If it's not designed properly, right then and there, you've got to do some testing. And you have to see, once it's designed, it has to be implemented to be useful. So you have to make sure it's implemented.

The example that I always try to use in trying to explain this a little bit is accounts receivable.
If you're a charity or a non-profit organization, you get people promising to pay you money and you have a significant amount of accounts receivable that people have not paid on a budget yet, you want to make sure that system is good because you wouldn't want it to be inflated to draw, you know, to overstate or misstated the financial statements.

So you would look at the design of the controls. If the controls are fine, you would still test the controls for that part of it, but you would not have to go as deep as if you found that there was a design deficiency or that you found, in checking the controls initially, that there was a problem of implementation of those controls.

Because what the goal is in this is to be able to express an opinion on the financial information that's in there. And so there is levels of work that you do on internal control, but it does not rise to the level of being able to express an opinion.

MR. KORRELL: So how often does an organization typically look at, in-depth and in an audit sense, financial reporting, internal controls.
And is that something that we need to think about doing?

MR. MERRYMAN: I don't know that for sure. I could tell you some related information, part of Sarbanes-Oxley, you know they put in a requirement to do that for corporations or companies over 75 million, and they delayed implementing for companies from 75 -- I believe I read recently in the last two months, they decided not to require companies 75 million and below to have the test of internal controls like on an annual basis like they have for the larger companies. So my guess on that is not very often.

MS. MALIK-DORMAN: Right.

MR. RICHARDSON: And if I can jump in.

CHAIRPERSON GREY: Let me recognize the treasurer, David Richardson.

MR. RICHARDSON: The last two meetings, we've provided presentations to you on cash management, grants making, and the different aspects of the financial system. We review those annually because we update this information to provide to our auditors. If we had a change, for instance, in signature authority.
If we've had a change in the way we present our financial statements.

We go through that process and do that, provide it to the auditors, and that is the basis for some of their testing. If you'll recall last year, we had a note in regards -- we did all of our grant processing, and we do most of them through wires, through direct deposits, and we had, last year, two grantees that received checks. And the auditors checked four of those check processings for the grantees, and two of them were not signed. So that was a breakdown in the internal control that we corrected.

We've done that, we've provided the information to the auditors when they came in this year to review so that we make sure that we're on -- we satisfy what occurred last year, show them that we have made progress, corrected the problem and moved forward. And any other changes -- we had changes in personnel this year that we have now reflected in the document. So that annual -- that process is done annually and provided to the auditors.

MR. KORRELL: That's an internal LSC staff
process.

MR. RICHARDSON: Right. That's correct.

MR. KORRELL: I'm new to this as well. How often does someone -- do we need to take a look at with an outside auditor looking at our internal controls or is that something that is not --

MR. RICHARDSON: Okay. If I can. We do it, we document it, and we provide it to the auditors for them to do -- start the review and look at our processes. And as they do the review within the system, they see the checks and balances we put in place and make sure that everything is documented.

MR. KORRELL: But at the end of the day, we still get a sentence that says we're not expressing an opinion on your internal controls and financial reporting. And I just don't know, do we need to do something so that we don't have that sentence, so we have a sentence that says, we did look at it and we think they're fine.

MS. MALIK-DORMAN: Well, I think it's standard audit language, and it's not a part -- typically, other organizations don't go beyond this; specifically,
non-profit entities. One control that you do have in place is the Office of the Inspector General. So you do have, on an ongoing basis, an independent entity kind of looking at management's controls, and that's ongoing. And I think that's a key control.

It's like in a corporate entity, the internal audit department. You're not subject to Sarbanes-Oxley. So you don't have to really take a further step, but you do have, you know, Office of Inspector General performing periodic reviews of controls. And then internally, you have management who is also watching, you know, and kind of self-testing, I don't know if that is the right word, but looking at controls ongoing, and then we come in.

So you do have -- I think you have a good control environment, if I may say so myself. You do have a strong control environment. I don't think it would add anymore benefit for you to go a step further. And then, again, you have to look at the cost effectiveness of doing something like that. So those are my comments.

MR. KORRELL: Thank you.
MS. MALIK-DORMAN: Sure.

CHAIRPERSON MADDOX: Gloria?

MS. VALENCIA-WEBER: This is kind of connected to Harry's question. And this may be just, again, a special term of art or technical term. On the blue tab part where you're talking about the kinds of what you consider identified deficiencies; for instance, where it says the performance evaluation is not being performed timely and then you have the management response where the situation is because of the formation of the union, the evaluations for personnel have not been conducted subject to the reaching a collective bargaining agreement.

And is the term "deficiencies" applicable even when an organization is either under a legal, or other binding mandate, that it cannot, you know, engage in a process you might normally have expected to find?

MS. MALIK-DORMAN: Well, I guess control deficiency is a pretty strong word, especially for this particular observation, but again, this is standard language that we have to follow in issuing our report. So and it's also -- you know, I don't see this as a
serious matter, especially since this, you know, agreement has not been negotiated. But still, you know, we have it in here because management still expects to complete these evaluations.

MS. VALENCE-WEBER: All right. Okay. So it is a specialized term meaning --

MS. MALIK-DORMAN: Mm-hmm. Yes. And it sounds really bad, you know, controlled deficiencies, but, you know, that's the language that we're required to use, and, you know, when it gets worse, it's significant deficiency or material weakness, which you don't want to see. You know, and that would be in the other report.

MS. VALENCE-WEBER: Okay.

CHAIRPERSON MADDOX: Thank you. Any other comments from the other board members?

(No response.)

CHAIRPERSON MADDOX: Mr. Attorney General, did you have anything to add? Mr. Inspector General.

MR. SCHANZ: Well, thanks for the raise.

(Laughter.)

MR. SCHANZ: Victor knows Eric Holder a lot
better than I do, but I did work for him.

No, I appreciate the support and questions of the audit committee. We are very interested in timeliness and we are very interested, as an OIG, in internal controls. And I'll mention that if you go on our website, a lot of our external grant audits involve a review of selected internal controls. And that's part of our risk assessment discussion as to which grantees are at risk of defalcations or of not spending money properly or of not doing what they're supposed to do with the limited funds they get from the LSC.

So our titles of our grant reports, our review of selected internal controls, once again what Uzma says, if we take a look at all of their controls, then you get into a cost benefit analysis.

CHAIRPERSON MADDOX: Sure.

MR. SCHANZ: So using a risk assessment, we know which areas nationwide, on the work that we've done, that are vulnerable to misuse, fraud, waste and abuse, using IG language.

CHAIRPERSON MADDOX: Outstanding. Thank you very much.
MS. VALENCEA-WEBER: Thank you.

CHAIRPERSON MADDOX: Thank you, Ms. Malik-Dorman.

MS. MALIK-DORMAN: Thank you. Thank you so much.

CHAIRPERSON MADDOX: Okay. We will move to the next item on our agenda, which is the review of the LSC's IRS Form 990 for fiscal year 2010.

And Mr. Richardson, the treasurer and controller. Over to you.

MR. RICHARDSON: Okay. Again, I would like to apologize for getting this to you just now. I received this late last week. I did not have a chance to review it because of things going on here in the Corporation. I finally got it completed last night. I've made sure, and I've initialed here -- when you look at the 990 and you look at the financial statements, you'll see that everything is in balance, and I made sure of that last night as we look at this.

There is a report that is 50, I think it's 55 pages in total. I've only given you the first seven because it lists all the grantees. It gives you all
the loan repayment assistance folks and their home
addresses. It also gives salaries and time spent on
LSC activities for management and for the Board
members. Unfortunately, I'm still receiving time
reports for Board members. So it's not 100 percent
cOMPlete. We're getting much, much closer.

What I will do is provide you a complete copy
of the form. That way you will have a Form 990 when
it's complete work. Our goal was, of course, to have
it done before this meeting. One of the delays, of
course, was with the audit in getting this and then the
cross pollination within the 990.

But now that we've got this completed,
hopefully by next Friday is my goal to be able to get
it completed and in your hands. But at least at this
point, we know that the financial data does match the
audit and that we'll just get the last information in
as far as the time records for those that are needed.

CHAIRPERSON MADDOX: So it's fair to say that
the 990 form is going according to your procedures.
There is nothing exceptional or extraordinary about it.
You're satisfied that all the information is there and
the form is going to be in order?

MR. RICHARDSON: That's correct. The deadline
to get it filed is February 15th, and we will do that.

CHAIRPERSON MADDOX: Yeah.

MS. REISKIN: It's February 15th?

MR. RICHARDSON: Yes.

MS. VALENCIA-WEBER: It's different than the
individuals.

MS. REISKIN: Oh. You just about gave me a
heart attack.

MR. RICHARDSON: Because it's fiscal.

CHAIRPERSON MADDOX: Did I hear you say that
one of the holdups is that the Board members have not
gotten reports of their volunteered time to you
already?

MR. RICHARDSON: Some. We may make a few
phone calls early next week.

CHAIRPERSON MADDOX: Do we, as a committee,
need to admonish the Board?

MR. RICHARDSON: No, I don't think so.

CHAIRPERSON MADDOX: Anybody here guilty?

MS. VALENCIA-WEBER: No. I didn't have to do
it, but I'm not guilty.

MR. RICHARDSON: No. You two did not have to do it as yet.

CHAIRPERSON MADDOX: Oh, that's right.

MR. RICHARDSON: You came in October.

MS. VALENCIA-WEBER: We didn't have to do 2010, but I thought we had to do the first quarter of fiscal year 2011, which is what I sent in.

MR. RICHARDSON: That's correct. And that's what we're trying to do is to make sure that people are on top of it by getting it quarterly instead of waiting until the year end and saying oops, I've got to go review 12 months worth of records to see how much time I've spent.

CHAIRPERSON MADDOX: Yes. I know exactly what you're talking about. Anything else? If not, we thank you for --

MS. MIKVA: Are there some dire consequences of underreporting the hours?

MR. RICHARDSON: No, there is not.

CHAIRPERSON MADDOX: Okay. Well, thank you very much.
We'll move now to item number five, which is the report on the LSC's 403(b) plan performance. Is Ms. Dickerson --

MS. VALENCIA-WEBER: I thought I saw her earlier.

CHAIRPERSON MADDOX: Yeah, I don't see her. We can move on to the item number six and defer that to the next item. Is the inspector general available? We'll just move on to item number six for now.

Item number six is the Inspector General's briefing, and I turn it over to Jeffrey Schanz.

MR. SCHANZ: Thank you, Mr. Chairman. I'm going to defer a little bit also because I would like to make our presentation on our work plan to the entire Board on Saturday because this being the audit committee, I can talk to you about our audit activities, but I would prefer to defer to give you a complete snapshot of what we're going to be doing in the next fiscal year.

CHAIRPERSON MADDOX: I think that's fine. Any objection?
(No response.)

CHAIRPERSON MADDOX: Okay.

MR. SCHANZ: Okay. Thank you very much.

CHAIRPERSON MADDOX: That will be great.

Thank you.

A PARTICIPANT: Ms. Dickerson is on her way.

CHAIRPERSON MADDOX: Okay. Then we'll just wait for Ms. Dickerson, the director of human resources.

MR. KORRELL: Mr. Chairman, a question for you.

CHAIRPERSON MADDOX: Sure.

MR. KORRELL: I've been looking at the agenda and I looked back at our -- when I was looking at the -- and this may be other business, but while we've got a second here, I was looking back at the minutes and we had talked about approaching the idea about getting some input on revising the charter for our committee. Is that a live issue still?

CHAIRPERSON MADDOX: It's not a live issue now. That's an issue that really was something that I brought up. And I'll just, if I haven't explained this
already, I'll do so again.

The -- our charter provides for, in essence, employees of the Corporation to bring complaints about certain matters outlined in the charter to the Committee, and then the Committee is obliged to determine, A) if the matter falls within the Committee's jurisdiction, and B) if so, if it needs investigation and resolution by the Committee.

The way the charter presently reads is it gives the chairman certain discretion to decide if A) if it's within the Committee's jurisdiction and B) if it needs further handling by the Committee and then ultimately by the Board itself. And I understand that that language came from sort of best practices and reviewing other federal agencies and whatnot.

My own thought was that I'm not particularly happy with the idea that I, as chairman, am A) empowered or B) compelled to exercise discretion to decide if an employee's complaint is something that deems further, you know, deserves further investigation.

So my thought was that we would amend the
charter to provide that I would determine if it's within the Committee's jurisdiction. And if it is, then the Committee would determine if further action was required.

I think I was convinced, either by talking to others or thinking about it further, that we would just wait and see how this played out, since we haven't yet had any complaints. There was an item that came to the Committee's attention last year before you-all were involved that sparked my interest in perhaps revising it. And I think that I'm just prepared to wait and see if we have a problem.

MR. KORRELL: My recollection of the issue was a broader one, but we've got Ms. Dickerson here.

CHAIRPERSON MADDOX: Okay.

MR. KORRELL: So I'm happy to -- if it's okay, I'll just bring that up in the other business as a topic for discussion.

CHAIRPERSON MADDOX: Okay. Then we recognize the director of human resources, Alice Dickerson, for report on the LSC's 403(b) plan performance.

MS. DICKERSON: Thank you. I apologize,
first, for being out of the room, but I started to
cough. I've had bronchitis recently and I started to
cough right before and I didn't want to interrupt
David's presentation or to appear coughing.

So basically this is just a brief review of
where we were in October when we reported to you on the
403(b). We have now made changes of several of the
funds, as described in the memo. We have still not
made a decision as far as whether to go ahead and enter
into an agreement with Mesirow as far as the shared
fiduciary responsibility. We are awaiting further
clarification from them on a couple of things that Mark
Freedman had requested clarification on. And I think
once we receive that, then we'll be prepared to go
ahead and make that decision.

We are also looking into getting fiduciary
insurance on the plan. Mr. Meites had requested that
before he was no longer on the Board. So we are
looking into that. We have an application in process,
and we're getting quotes. So we very possibly will be
moving in that direction as well.

We did go ahead and add the Mesirow
recommended funds, and they are doing very well for us
in the fourth quarter. The plan made a hundred and
fifty thousand dollars. There was -- let me say -- I'm
sorry. Let me say this differently. The assets
increased by $850,000. If we subtract the
contributions, which total 480,000, the actual gain is
370,000. But for one quarter, that was actually very
good. And so we're very pleased with that.

The new funds have been well received by
employees. We added four different categories of funds
that were not previously available. And that was a
small growth fund, a real estate fund, natural
resources, and diversified emerging markets. And so we
had the mapping in I think it was October or November
of this year. And so all of the assets now are
invested in the new funds.

And we still have our investment advisor come
in on a monthly basis and meet with employees and
advise them on how to best invest or how to best
capitalize on what they have. And they are also
willing to meet with people on a one-on-one basis. And
many employees take advantage of that opportunity as
well.

So we continue to be very well pleased with
AUL as our plan administrator. We're very pleased that
we made that change, and they have continually
impressed us with the way our account is handled. If
anyone has any questions, I would be glad to --

CHAIRPERSON MADDOX: I guess the only question
I have is last year I think you provided us with some
comparative data on the fund's performance.

MS. DICKERSON: I can send that to you. I do
have it.

CHAIRPERSON MADDOX: Could you make that
available to us?

MS. DICKERSON: Certainly. Actually, I can
have it copied this afternoon and give it to you
before --

CHAIRPERSON MADDOX: Yeah, that would be
great.

MS. DICKERSON: -- before you leave.

CHAIRPERSON MADDOX: And then I guess one
other question is on the fiduciary issue, it seems like
this has been an ongoing issue now for, what, six or
nine months?

MS. DICKERSON: It has been an ongoing issue since June.

CHAIRPERSON MADDOX: Okay.

MS. DICKERSON: And is Mark -- Mark is here.

CHAIRPERSON MADDOX: I recognize Mr. Freedman of the legal counsel's office.

MR. FREEDMAN: It has been an open issue. In some sense, the ball has been in their court. We had an extensive teleconference with some folks at Mesirow itself who originally didn't want to deal directly with any of the employers who were in the plan. They wanted to do everything AUL. But we had sufficient questions for clarification that they came to the table.

We've had some correspondence on confirming, okay, here is what we understand you said you understand your agreement to say. Until we've got that nailed down, we're not quite ready to say okay, we can go ahead with this. And right now, we're still covered under the fiduciary coverage agreement directly with AUL. And it's AUL that primarily wanted to have us move over to Mesirow. So we're going to follow up with
them to say are we moving forward with this. But right now, we're -- we don't have a gap. We just have kind of a delay.

CHAIRPERSON MADDOX: So just for clarification, where do the fiduciary responsibilities lie right now and where do we expect them to be and where will the relationships be once the Mesirow deal is completed?

MR. FREEDMAN: And this has to do with, this narrow chunk of the fiduciary having to do with the investment advice services. Now when we signed on with AUL, it was a little convoluted to begin with. In one sense, it will be simpler, but the parties will be different.

AUL agreed to provide investment advice services from a place called Ibbotson. Well, Ibbotson was providing the investment advice, which basically boiled down to narrowing the field and saying pick from these. And Ibbotson was backing up the we're telling you to pick from these. And if that's bad advice, that's our bad, if it's insane.

They're actually -- we're actually providing
that information to AUL. So when AUL provided that information to us, AUL was providing the backing for that saying we think this is good enough, that if that was a bad narrowing, sue us.

They restructured it so that instead of Ibbotson providing the advice, a company called Mesirow out of Chicago will be providing the advice. And as part of that restructuring, Mesirow will be offering that fiduciary, if we narrowed it bad, that's our bad. Go after us.

The terms of the agreement that Mesirow wanted us to execute were a little different than the terms that AUL had. And also we had some concerns that we were adding yet another party into the mix. And beforehand, we had -- our planned administrator was also offering this fiduciary. So it was kind of part of the big bundle. And part of the complexity here was that while Mesirow was providing this to lots of different employers through the -- it's really a service Mesirow is providing to AUL.

And Mesirow only wants to deal with AUL, but the agreement for the fiduciary here is an agreement
between us and Mesirow. And AUL isn't actually a party
to that agreement. But AUL essentially was negotiating
-- not really negotiating, presenting the agreement to
us. Those were the complexities that most our
understanding from -- with AUL and also our financial
advisor is that most employers, fine, whatever,
whoever. We noticed some things that just didn't seem
right. And then as we pushed on that, they actually
changed their form agreement on some matters, and then
we had this follow-up on others to get clarification.

So in the end, it's also a very small risk
area, given the type of work that Mesirow is providing,
and the quantity that they're doing is an extremely low
risk that there be any liability associated with the
narrowing down to the which investments are in the
package that we're going to select from. And of course
our advantage is, once it's been narrowed down there,
we have this almost safe harbor of saying, you know,
we've go the best experts to say anyone of these is,
you know, well above what would be a reasonable,
prudent choice. But it's getting that extra little
coverage there.
Now as part of this process, we also identified that there is an additional layer of protection of a fiduciary insurance that we can get for essentially the entity, which is kind of like an umbrella policy. And given the layers of protection we already have, the premiums are pretty low. And I think the comptroller is looking into exactly what we do.

Additionally, there is -- I think of the code provisions right now, but there is a way we have a planned structure that falls into certain additional safe harbor provisions. So right now I think we have a number of overlapping spheres of protections saying that we are being as careful as possible. And generally, as we've gone over things with David Levine, who is our counsel at the Groom Law Group, which is a benefits boutique firm, they've said that we are -- under the prudence level and the care level, we are well above our peers.

CHAIRPERSON MADDOX: Okay.

MR. FREEDMAN: Does that answer both the structural question and I think the underlying concerns?
MS. VALENCEA-WEBER: Is that the, essentially the fill-in for the sentence you have here, that we are in the process of applying for independent fiduciary insurance?

MS. DICKERSON: Yes. The comptroller is working with various insurers getting quotes and so on.

MS. VALENCEA-WEBER: Okay.

CHAIRPERSON MADDOX: Okay. Well, thank you for that report.

MS. DICKERSON: Okay.

CHAIRPERSON MADDOX: Thank you, Mark.

MR. FREEDMAN: My pleasure.

MS. REISKIN: May I ask a question?

CHAIRPERSON MADDOX: Sure.

MS. REISKIN: Do all of our grantees have these kinds of things?

CHAIRPERSON MADDOX: Not necessarily.

MS. DICKERSON: I think some of them do. I don't think I can say all of them do because I'm not sure that we even know for sure if all of them do. But I know from a time earlier in my career at LSC where I was actually visiting grantees at times, I remember
them telling me they did not have. So and I think even
the ones who do probably are not able to contribute,
for instance, on a level that LSC is able to
contribute.

And the reason our contribution is so generous
is the fact that at -- initially, LSC employees had
federal benefits. So our employees were in the CSRs.
When the federal government developed FURS, there were
technical amendments to FURS. And at the time they did
the technical amendments, they excluded agencies like
LSC. I shouldn't use agency because we're not an
agency.

MS. VALENcia-WEBER: Entities.

MS. DICKERSON: Entities like LSC who were not
federal, but who were funded by congressional
appropriation. And we were all taken out of the
federal benefits at that time. So when we worked with
the other benefits providers and brokers, we designed
the plan to be as much like the federal plan as
possible so that we would be able to contribute on the
same level and provide, you know, quality for our
employees.
CHAIRPERSON MADDOX: Does that answer your question?

MS. REISKIN: Thank you.

CHAIRPERSON MADDOX: Thank you, Alice.

MS. DICKERSON: You're very welcome.

CHAIRPERSON MADDOX: Item number eight is public comment. Is there any public comment?

(No response.)

CHAIRPERSON MADDOX: Hearing none, we will move to item number nine.

MR. KORRELL: Did we skip seven?

MS. VALENCIA-WEBER: Mr. Meyer?

CHAIRPERSON MADDOX: Oh, I'm sorry. Always use your glasses when looking at the agenda. Item number seven is a Report on the Accuracy of Grantee Data by John Meyer, the director of Office of Information Management.

MR. MEYER: Office actually of, but, you know, that's a typo type correction.

CHAIRPERSON MADDOX: Okay.

MR. MEYER: And my report, this is on page 101 in your book. So you, you know, you can turn to that
if you want. And I will -- I have footnotes and so on.

I won't read all that. I will give you the gist. I know we're way late.

CHAIRPERSON MADDOX: Please don't read the report to us, but I mean, we'll read the report.

MR. MEYER: Yeah.

CHAIRPERSON GREY: But if you can provide, you know, your summary and refer to it as much as necessary.

MR. MEYER: Okay. Okay. Right. Okay. This is about the grantee program data. And what was covered in this is three major categories that are discussed here, are the case service report, the CSR, which are the cases the grantees do; financial information; and grantee staffing. And CSRs come in annually. And they are a detailed report.

They cross match the level of service given and the type; that is, whether it was a consumer case or an income maintenance case, or what, and we can pull that information out in considerable detail so you can get down how many consumer cases were bankruptcies done by and what decision.
The case types are also, there is 10 broad categories and they're subcategorized into 77. We also have a separate report between the case in general and PAI, which I know is very interesting. And so you can subcategorize the PAI cases and pull them out in the same level of detail.

And these reports are subject to extensive guidance. We have worked on this over a long period of time, and the 2008 CSR Handbook is our current guidance, which is backed up by also frequently asked questions, which they're all on the Internet. Actually, pretty much everything here is.

In general, this CSR data is pretty solid. What we have is a what we call a self-inspection, which is required to be submitted with the actual cases. And the grantees sample their own, what they're going to submit according to a list of different things they need to check, and they tell us out of these cases, which they pull up and check specifically, did this all check out or was there an error. And we have -- that sample has, in the last six or seven years, been about a 3, 3.5 percent, which I would say is pretty good.
Then okay. We also collect number of open cases as of December 31st each year and we have an age, ethnicity and gender report. For all of these, we can do national statistics, and we can also do statistics by grantee and we can slice them out.

In addition, there is what we call the other services report. And that deals with assistance given that isn't cases. Things like forms for pro se, community legal education. Most of that is Internet. There is a very large number of those, much larger than the CSR's. And then that, in terms of the accuracy level, we -- you know, these are not reported and checked individually. It is not reported and checked individually. And they are reasonable, but I wouldn't make the same level of claim of accuracy.

Grantee financial information -- I think my problem was I was sitting too far back. Grantee financial information is also submitted annually, the unaudited ones that -- and this gives us a picture of everything nationally by grantee, by service area. It sliced the revenues or sliced that LSC and non-LSC in the bias subcategories as laid out here. So we can
find out what came out of IOLTA, you know, what the bar
association submitted, et cetera.

And here I have, which I'll skip over, a
coverage of how the trends have been in this over the
years. You can read that.

Then we have grantee staffing. And that's --
actually, we get reports of all grantee staff members,
considerable information about them. Now the
individualized reports come here, and we have a
legitimate use for them, but, you know, we don't give
that out because on the individual level, unless -- if
there is a FOIA, we would give out what's required, but
otherwise, we don't give that out. But we do use it
when, you know, an OCE or OPP visit is occurring. At
that point, it's legitimate and relevant information to
be used.

You know, mostly that's good, but we do run a
number of checks to make sure, for example, that
somebody didn't put in -- you know, if we get a
$600,000 salary, we know it was an error, somebody hit
an extra zero. So we check through these things and
pull out, and we have some experience as to what tends
to be errors. So we can do some improvement with that. Again, I have a listing of historically how the data has varied over recent years, which hasn't been that much. It's been a level of considerable constancy. And that will conclude my summary.

CHAIRPERSON MADDOX: So it's fair to say that you're pretty comfortable with the --

(Interruption to proceedings.)


You're comfortable with the accuracy of the data that you use, and that's the data that goes into presenting, for instance, our fact book for a year?

MR. MEYER: Absolutely. Actually, I had -- definitely this is the fact book data. That's what I've concentrated on. And I'm very strong on the CSRs; the revenue data I haven't seen any problems with. And yes. I would say, without just repeating everything, yes.

CHAIRPERSON MADDOX: Okay. Any other questions from the Committee or other Board members?

MS. REISKIN: Is this aggregated on the
website, the data?

MR. MEYER: Oh, yes. Well, okay. I mean, there is a lot of data on the website. I mean, I'm sort of discussing it broadly. A great deal of that data is in the grantee profile --

MS. REISKIN: Okay.

MR. MEYER: -- with other data. I mean, I wouldn't say it's all set out exactly as I was discussing in here, but we have all that data, and if you want information, we either can point you to it or we can give it to you.

CHAIRPERSON MADDOX: The fact book is available online.

MR. MEYER: Oh.

MS. REISKIN: Yes. We've been given that.

MR. MEYER: Absolutely. The fact book is -- again, the fact is available on the website. Absolutely. The grantee profile has a lot of additional data in it and is, you know, very useful if you want to find out what's going on in a grantee. And then we have more specific, even more detailed data if you want it.
CHAIRPERSON MADDOX: Gloria?

MS. VALENcia-WEBER: I expect, with what's happened in the recession and the cuts, the loss of IOLTA and other public and private funds for our grantees, we have fewer attorneys, fewer employees, period, across all the grantees, you know, and you will give us a report on that. I notice your footnote six can only give us 2009.

In the meantime, where might we get an idea of what those cutbacks have done in terms of number of lawyers, paralegals, and all because just in doing our visits around the country, people told us what they're having to do. How many lawyers, how many paralegals, what kind of staff they're having to layoff, but the aggregate picture isn't really clear in my head.

MR. MEYER: Okay. We will be getting -- our data comes in annually in March, and then we've got to check it, but so we will be, fairly soon, having, you know, real data like this for 2010. Meanwhile, I can tell you that -- this is not a projection because, I mean, it's just a comment. I expected the funding totals of non-LSC to go down last year. They actually
managed to hold it level. I think they will go down this year.

IOLTA went down last year and it's going to go down further. I mean, that's -- everybody believes that. Last year as the data was coming in, they wanted information. I tried to give field some idea of what it was going to look like. And I was wrong even while it was coming in.

So I have found, historically, staffing number have had a remarkable -- a considerable level of constancy that I would expect that non-LSC will be down and staffing will probably be down, though we did fund LSC this year. And it might even be, you know, the next report after this one where things really go down depending, of course, on what we get in the LSC appropriations. I don't think non-LSC will probably recover in the next year or so.

CHAIRPERSON MADDOX: Thank you very much, Mr. Meyer.

MR. MEYER: You're welcome.

CHAIRPERSON MADDOX: Thanks for that report.

Item number eight on our agenda is public
comment. Is there any public comment?

(No response.)

CHAIRPERSON MADDOX: Hearing and seeing none, we'll move to item number nine. Any other business for the Committee?

Yes, Mr. Korrell?

MR. KORRELL: Yes, Mr. Chairman, to return to the topic I mentioned during our wait there. My recollection of the discussion from our October committee meeting about the charter, and maybe it's just my recollection and my reaction to reading that charter for the first time because I was new to this committee, along with Gloria, was that there was a lot on that charter.

And I wondered aloud and I think -- I thought others did also, whether that charter was sort of a product of some sort of brainstorming best practices, what do other audit committees do, and that many of the sources that we looked to did not have an Office of Inspector General as part of their organizational structure. And I wonder whether that charter is too ambitious and sets for us a bar that we may not
realistically be able to clear.

CHAIRPERSON MADDOX: We did talk about it.

MR. KORRELL: And if that's the case, I'm uncomfortable having a charter that says we will do things that we realistically can't do or shouldn't be trying to do, given that we have an OIG.

CHAIRPERSON MADDOX: Precisely. And we did -- it does lay out all manner of things that I don't think we can realistically do and yet we're required by our charter to do every year. And so maybe we ought to put on our agenda for an upcoming meeting a review of that charter, perhaps staff recommendations on possible ways to streamline and perhaps consolidate some of those items to more realistically reflect what it is we think we are obliged to do and really can't do.

Recognize the Inspector General.

MR. SCHANZ: I would report also that we have audit committee bibliography that we put together when the audit committee was first formatted in the last Board. We worked closely with the audit committee, and I would offer our services to do that again.

CHAIRPERSON MADDOX: We appreciate that. And
I think we talked last quarter or so about the possibility of trying to have just a sort of informal briefing with the Committee. It didn't happen because of schedules and whatnot, but perhaps we can get that in the next quarter or two.

MR. KORRELL: Yeah. Rather than waiting for our next Board meeting, it might not be a bad idea if we had a telephone conference with maybe the OIG or appropriate staff. Just kind of talk about how that document came to be.

CHAIRPERSON MADDOX: Or maybe a video conference.

MR. KORRELL: Maybe a video conference.

MS. REISKIN: That would be okay.

CHAIRPERSON MADDOX: That would be great.

MR. KORRELL: I think it would be all right.

Okay. So I leave that to the chairman to think about if that's okay.

CHAIRPERSON MADDOX: We'll consider that for our next agenda.

MR. KORRELL: Okay. Thanks.

CHAIRPERSON MADDOX: Thank you very much.
Thank you, Inspector General.

I think that concludes the open session of the meeting today. And we'll now proceed to our closed session. So those who are not involved, and otherwise, authorized can leave the room.

(Whereupon, at 12:36 p.m., the open session of the committee was adjourned.)

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