

LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

FINANCE COMMITTEE

OPEN SESSION

Saturday, January 20, 2007

9:05 a.m.

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

COMMITTEE MEMBERS PRESENT:

Michael D. McKay, Committee Chairman
Lillian R. BeVier
Herbert S. Garten
Thomas R. Meites
Thomas Fuentes
Frank B. Strickland, ex officio

BOARD MEMBERS PRESENT:

David Hall
Jonann C. Chiles (via telephone)
Bernice Phillips

STAFF AND PUBLIC PRESENT:

Patricia D. Batie, Manager of Board Operations
Helaine M. Barnett, President
Lynn Bulan, Senior Assistant General Counsel
Mattie Cohan, Senior Assistant General Counsel
Victor Fortuno, Vice President of Legal Affairs,
General Counsel & Corporate Secretary
Michael Genz, Director of Programs
Demille James, Legal Assistant
Charles Jeffress, Chief Administrative Officer
Eric R. Jones, Information Technology Specialist
Ronald Merryman, Acting Assistant Inspector General for
Audit
David L. Richardson, Treasurer & Comptroller
Karen Sarjeant, Vice President of Programs &
Compliance
Don Saunders, National Legal Aid and Defender
Association
Rosita M. Stanley, National Legal Aid and Defender
Association
Julie Strandlie, National Legal Aid and Defender
Association
JoAnn Wallace, National Legal Aid and Defender
Association
Kirt West, Inspector General
Charles Wynder, National Legal Aid and Defender
Association
Nancy David, M.D. Oppenheim

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MOTIONS: 4, 5, 6, 67, 73, 83, 84

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

2 MR. MCKAY: Good morning. Call to order the
3 session of the Finance Committee on January 20, 2007.
4 First item on the agenda is approval of the agenda.

5 APPROVAL OF AGENDA

6 MR. MCKAY: Has everyone had a chance to look
7 at the agenda?

8 M O T I O N

9 MR. MCKAY: I am going to propose an
10 amendment to the agenda, adding as a new item six after
11 item five, which would read, "Consider and act on
12 adoption of 2008 appropriation request," and the topic
13 here is the request that is contained in a memo from
14 Mr. Jeffress and President Barnett, relating to the
15 need -- their request to adjust our appropriation
16 request in the amount of \$1 million on the management
17 line item.

18 MR. FUENTES: Move to accept the amendment.

19 MR. MCKAY: Any other changes to the agenda?

20 (No response.)

21 MR. MCKAY: All those in favor of approving
22 the agenda, as revised -- or excuse me, just a second.

1 The president is trying to get my attention.

2 (Pause.)

3 MR. MCKAY: Okay. I am advised, in order to
4 comply with the Sunshine Act, I have to read to you the
5 following: "By memorandum dated January 16, 2007,
6 President Barnett communicated to me, as chair of the
7 finance committee, and I asked her to forward to the
8 rest of you a recommendation concerning our Fiscal Year
9 2008 budget request to Congress.

10 Because that post-dated the issuance of a
11 public notice to this meeting -- that is, we already
12 had a public notice with this current agenda -- it is
13 not an item that we have on our agenda for today.

14 However, I have been advised that the
15 Sunshine Act permits adding the item to our agenda if
16 there is a recorded vote of the majority of the
17 directors that corporation business so requires, and
18 that no earlier announcement of the change was
19 possible."

20 M O T I O N

21 MS. PHILLIPS: With that understanding, do I
22 hear a motion to add to our agenda for action

1 management's recommendation of January 16, 2007
2 regarding the Fiscal Year 2008 budget request to
3 Congress? So do I hear a motion to that effect?

4 MR. FUENTES: Second.

5 MR. MCKAY: All those in favor, say aye.

6 (Chorus of ayes.)

7 MR. MCKAY: Opposed?

8 (No response.)

9 MR. MCKAY: All right, thank you. We are now
10 in compliance with the Sunshine Act, according to
11 advice from our general counsel.

12 APPROVAL OF MINUTES OF COMMITTEE'S
13 MEETING OF OCTOBER 28, 2006

14 MR. MCKAY: Next item on the agenda is
15 approval of the minutes of the committee's meeting of
16 October 28, 2006. Has everyone had a chance to review
17 those minutes?

18 M O T I O N

19 MR. MCKAY: Do I hear a motion for the
20 approval of the minutes, as prepared?

21 MR. GARTEN: So moved.

22 MR. MCKAY: Second?

1 MR. FUENTES: Second.

2 MR. MCKAY: All those in favor, say aye.

3 (Chorus of ayes.)

4 MR. MCKAY: Opposed?

5 (No response.)

6 MR. MCKAY: That motion passes.

7 PRESENTATION OF THE FISCAL YEAR 2006

8 ANNUAL FINANCIAL AUDIT

9 MR. MCKAY: The third item on the agenda is a
10 special privilege. We are going to hear the
11 presentation of the Fiscal Year 2006 annual financial
12 audit. Mr. West is here, and I think he is going to
13 introduce our special guest.

14 MR. WEST: Good morning, Mr. Chairman and
15 members of the committee, and everybody else that is
16 here. I would like to introduce Nancy Davis, who is
17 the partner in charge of the Silver Spring office of
18 M.D. Oppenheim and Company. M.D. Oppenheim and Company
19 has been the auditor, outside auditor, for -- this is
20 the sixth year. We just renewed the contract. I think
21 I told you we bid it, and her firm won it again. And
22 they do an excellent job.

1 She has been in the public auditing arena for
2 18 years, I believe -- hope I'm not giving away any
3 secrets -- and the last 7 in the public accounting.
4 Prior to that, she had major -- a lot of experience in
5 non-profit accounting.

6 Nancy is going to talk briefly about the 2006
7 financial statement audit, where we are at, sort of how
8 it -- how she goes about doing it. And then she also
9 is going to talk to you about an exposure draft of a
10 change in standards that are going to affect her work,
11 and how she is going to relate to this board. So I
12 would like to introduce Nancy.

13 MS. DAVIS: Good morning to all of you. I
14 would like to simply add to what Kirt indicated, is
15 that we also service the federal government agencies as
16 our clients. We perform audits of those agencies, and
17 on behalf of those agencies. So we have a unique
18 understanding of both the federal government
19 regulations and requirements, in addition to the
20 not-for-profit standards that you all must comply with.

21 As it relates to the Fiscal Year 2006 audit,
22 we are just about complete. We have a few remaining

1 items to resolve, some information in a couple of the
2 disclosure notes and the like, but I would project that
3 by the end of this coming week, that we should be able
4 to issue a draft report.

5 The audit opinion this year will again be a
6 clean opinion. David Richardson and his staff do an
7 excellent job in our opinion. They are well prepared.
8 When the audit begins, they have prepared the necessary
9 information that we need to facilitate that audit, and
10 they are very helpful throughout the course of the
11 audit, both in providing additional information
12 requests, and in answering any inquiries that we may
13 have.

14 So, I think that you all can have some great
15 confidence in the fact that that aspect of the
16 operations is very well run.

17 There will not be any findings issued this
18 year. As required under generally accepted government
19 auditing standards, we will, however, be issuing a
20 management letter with some smaller items that we
21 simply would like to bring to the attention of
22 management.

1 I think the most significant one is that you
2 all continue to have challenges with record keeping and
3 tracking of your fixed assets: computers, computer
4 software, which is, in any organization, a large
5 undertaking. You have a very low capitalization
6 threshold of \$500, so that means that, you know, it
7 increases the amount of tracking that you do.

8 The biggest area I think of where -- each
9 year it has improved -- we continue to see a need to
10 more effectively identify obsolete items, items to be
11 disposed and to effectively get them off the records.
12 And the other thing is that the fixed asset records at
13 the detail level are being maintained in an Excel
14 spreadsheet. So every single asset is in there, and
15 it's being depreciated by use of formulas in that Excel
16 spreadsheet, which we did not find any errors in the
17 spreadsheet this year. However, it is very large, very
18 detailed, and as such, prone to error.

19 We have discussed this with Dave. He has
20 indicated that the Sun System accounting system has a
21 fixed asset module, that it may be worth investigating
22 further, to see if that could be implemented, something

1 that would just facilitate the process and make for
2 more accurate and more efficient record-keeping for an
3 organization this size.

4 One of the other areas in the management
5 letter is that while we believe that the controls that
6 we looked at and tested seem to be effective, that at
7 critical places where review, such as of journal
8 entries or review for accuracy of invoices before
9 they're paid, sometimes that review has not been
10 documented, so we don't have evidence that it's always
11 taking place.

12 Again, not a serious concern, but something
13 just to bring to the attention that can be improved
14 upon.

15 The final thing that we will be including in
16 the management letter relates to the fact that while
17 there hasn't been high turnover in the accounting
18 operations now for several years, there is a tendency
19 to get complacent. There is defined user access into
20 the accounting system that we believe needs to be
21 revisited on an annual basis, to make sure that access
22 is still appropriate. People's job descriptions and

1 responsibilities sometimes shift through the years, and
2 those access, you know, controls may not be updated, to
3 make sure that those are still where they need to be.

4 So, that basically summarizes the reporting
5 aspect of it. As far as the financial position of the
6 organization, it's remained fairly stable between 2005,
7 2006. As you know, your revenues in 2006, your federal
8 funding dropped slightly, but you all adjusted for
9 expenses, commensurate to that.

10 So, we are reporting that the change in net
11 assets for the year was \$475,045, as opposed to the
12 change in net assets in 2005, that was \$280,554. So
13 again, the information is very stable. The
14 organization seems to be in good condition,
15 financially, and I think you're in good shape.

16 The other information that I would like to
17 share with you briefly today is very significant. As
18 you know, in this post-Enron culture that we live in,
19 there has been a lot of changes in the accounting and
20 auditing arena. Most significantly and rapidly, after
21 Enron we saw those changes in requirements of public
22 corporations, both in their accounting standards and in

1 the auditing standards under which they are now being
2 held, the establishment of the PCAOB.

3 And for those of us that do not audit in
4 that -- in the public sector, we have watched these
5 changes and have known that it was just a matter of
6 time before there would be a trickle-down, that it
7 would -- now there would be, in one form or fashion,
8 this would come to be applied to the private sector and
9 to not-for-profits.

10 And I want to report to you today that that
11 has now happened. Over this last year, the auditing
12 standards board has issued 13 new auditing standards.
13 I have never seen that many auditing standards issued
14 in one single year. Only 3 of those standards will be
15 effective for your Fiscal Year 2007 audit. The
16 remainder will be required to be implemented for Fiscal
17 Year 2008.

18 Of those three standards this year, just in
19 brief, one of them clarifies the definition and use of
20 terms to be -- that are used throughout the standards.

21 SAS103 is an -- updates the SAS on audit documentation
22 and the requirements. It defines what should be

1 included in that audit documentation. It changes the
2 opinion date.

3 Used to be, as it currently is for this
4 current audit, that the opinion date was always
5 established as the last date of field work. It now
6 will be moved and it will be closer to the release date
7 of the report. So it will be a longer period of time.

8 There is a requirement now that all audit
9 documentation be completed no later than 60 days after
10 the audit report is released. And once those papers
11 are completed, they are not to be changed. This,
12 again, goes back to the Enron days when all the audit
13 work papers were destroyed. Lots of things were
14 destroyed in that, in the aftermath. So now it is a
15 requirement that 60 days after the audit, there can be
16 no changes to those audit work papers.

17 SAS112, it's also implemented for this year,
18 will change some of the terms to more closely line the
19 audits to -- the private companies, and
20 not-for-profits, to line up with what the public
21 corporations are now doing. Perhaps you're familiar
22 with the term "reportable condition," or "material

1 weakness." The term "reportable condition" will no
2 longer be used, and you will hear it referred to as a
3 "significant deficiency."

4 And the SAS112, then, clearly goes through
5 and defines the severity of an issue, and how it should
6 be reported, what constitutes a material witness, how
7 do you assess the severity of significant deficiencies.

8 And so it will more closely line not-for-profits with
9 the way things are being reported in the public sector.

10 So, those are the three SAS's that will now
11 be applicable for Fiscal Year 2007. So they will not
12 be -- they will be fairly transparent for your
13 purposes, but just to simply make you aware.

14 In 2008, however, is when the bulk of the
15 rest of those new standards will be effective. And
16 they will require -- they will bring into play quite a
17 significant change in the audit process. Eight of
18 those standards are updates of previously issued
19 standards.

20 However, these new standards now have been
21 beefed up. There are many more requirements in them.
22 They are known within our profession now as the "risk

1 assessment suite of standards," because they now
2 require that all audits be performed using a risk-based
3 audit approach.

4 Now, firms have used that for many years, but
5 what this does, is it makes it a requirement. It beefs
6 up the documentation that will be necessary from
7 identifying risks at the inception and the planning
8 stages of the audit to document the work that was done
9 to address those risks, and then on the back end, to
10 conclude as to whether those risks, the significance of
11 those risks.

12 And so, there will be a lot that will be
13 involved, a lot more audit procedures that will be
14 required in order to fulfill the requirements of those
15 standards. And our profession right now is in the
16 process of rolling out implementation guidance to see
17 how they can best be implemented, and in the most
18 efficient way.

19 The other auditing standard that will come
20 out in conjunction with those risk standards, and will
21 have a direct impact on you all on the finance
22 committee here, is SAS114. And I believe Kirt referred

1 to it as an exposure draft. It was, until just this
2 month. It has now been issued. It is called, "The
3 Auditor's Communication With Those Charged With
4 Governance."

5 There always has been a requirement for
6 auditors to communicate. But what this does, as it
7 does with the risk standards, is it really beefs up
8 those requirements. It now requires that the
9 board -- or, in this case, probably your finance
10 committee -- will become a very active part of the
11 audit process from planning, all the way through to
12 completion of the audit.

13 It establishes that there should be
14 communication, communication lines that will take
15 place, and that while I will be required to report to
16 you and to discuss the planning of the audit, the
17 approach for the audit, the timing of the audit, issues
18 that come up within the audit, it no longer will be a
19 back-end process. The boards -- those charged with
20 governance -- are required now to be much more involved
21 in the process.

22 It also implements certain things, like it

1 says that the auditor now, on an annual basis, should
2 meet with the finance or audit committee at least once
3 annually without management present. So, there is a
4 lot of --

5 MR. WEST: Could you say that again, please?

6 MS. DAVIS: That the finance or audit
7 committee should meet at least once annually with the
8 auditor without management present.

9 So, there is a lot of different changes in
10 this. And again, I bring it to your attention in sort
11 of a brief overview this morning, to let you know that
12 this is coming. It will not be effective until your
13 Fiscal Year 2008 audit.

14 What I would like to do is this time next
15 year, arrange to meet with you all, or have a
16 conference call, where we can go into detail to discuss
17 the specific requirements of this audit standard, and
18 then to design a plan for how we feel that it can be
19 best implemented here at LSC.

20 The whole thrust of all of these standards
21 are -- and, again, in the post-Enron era -- is that
22 management is now -- the stress is that management is

1 responsible for taking the responsibility for their
2 internal controls within the organization, and those
3 charged with governance are responsible to know what's
4 going on.

5 It is -- the risk that you all have here
6 within this organization, as I see it, is because you
7 have a very -- Dave Richardson and his staff are
8 extremely competent. On the surface, things run very
9 smoothly. There has been nothing brought to your
10 attention to give you cause for concern. But in doing
11 that, there is a great -- the risk is that that
12 responsibility could easily be abdicated, and that
13 those involved, whether management or the board, would
14 not take an active interest in being -- in knowing what
15 is going on.

16 So, I bring it to your attention that these
17 auditing standards are out there now. They are going
18 to make a change in how things are handled, and your
19 direct responsibilities to that audit. And that now,
20 in this post-Enron world we live in, that management
21 and those charged with governance can no longer say, "I
22 didn't know."

1 So, this is how it is coming down to you.
2 And again, as I indicated, come Fiscal Year 2008, then
3 we will have to meet and discuss how we will go forward
4 to see that these things are implemented.

5 And also, within this standard, it is
6 directly targeted toward those charged with governance.

7 But it also, you know, any communication that would go
8 to those charged with governance, just by definition,
9 would be going to management first, you know, the
10 communication with management would also be as active,
11 so that it's not that management is out of the loop on
12 this in any way, but certainly does set up an
13 opportunity for the auditors to communicate with the
14 board without management present, should there be a
15 need to do so.

16 MR. WEST: Thank you. Questions?

17 MR. GARTEN: Yes, I have a series of
18 questions. Thank you for an excellent report. We're
19 known as the finance committee.

20 MS. DAVIS: Correct.

21 MR. GARTEN: And I have connections with
22 other corporations, where we have an audit committee.

1 The way you're talking, the finance and audit committee
2 would be synonymous, terminology-wise.

3 MS. DAVIS: It doesn't necessarily have to
4 be, and perhaps should not be. Sometimes in an
5 organization, especially in smaller, not-for-profits,
6 they would serve the same role. It wouldn't be, you
7 know -- in your case, I think that would be something
8 you might want to consider.

9 MR. GARTEN: All right. Would it be possible
10 for the finance committee to delegate -- it's a large
11 committee -- to delegate to a small group within the
12 committee --

13 MS. DAVIS: Yes.

14 MR. GARTEN: -- the responsibilities?

15 MS. DAVIS: Exactly. We can set up whatever
16 line of communication seems to be appropriate and
17 effective, although it does -- the standard does
18 require that -- simply because if I do not feel, in
19 fulfilling my requirements under the standard, that
20 simply addressing that group, as opposed to addressing
21 the board as a whole, it is my duty to be able to have
22 that access if I feel that I need to address a larger

1 group.

2 MR. GARTEN: Okay, and --

3 MS. DAVIS: But no, we certainly can work at
4 a smaller level.

5 MR. GARTEN: And I have some specific
6 questions. The management letter that you refer to?

7 MS. DAVIS: Yes?

8 MR. GARTEN: Is there anything in the current
9 one that is a repeat of what you have had for prior
10 years?

11 MS. DAVIS: We have repeated the comments
12 related to your fixed assets, the accounting for the
13 fixed assets. But in doing so, I would also add that
14 each year the process has improved.

15 MR. GARTEN: Okay.

16 MS. DAVIS: So it's not quite there, but it
17 is improving.

18 MR. GARTEN: With respect to the fixed
19 assets, you mentioned the \$500 threshold. Have you
20 given us any recommendations as to increasing that
21 amount so that there would be less problems?

22 MS. DAVIS: Oh, yes. I mean, we have

1 questioned and asked that, but I think that
2 that's -- for whatever the reason that that seems to be
3 the threshold that -- I think part of it is that,
4 generally, if you raise the threshold, so therefore you
5 don't need to track the assets for the purpose of your
6 financials, it doesn't mean that you shouldn't be
7 tracking.

8 The difference becomes -- the distinction
9 then becomes between capitalized assets and accountable
10 assets. So, just because you have a higher
11 capitalization threshold for the purpose of the
12 financials does not mean that you shouldn't have an
13 accountable asset tracking system.

14 So, I think part of the reason it stayed at
15 that level is that instead of having two separate
16 systems, it is kind of killing two birds with one
17 stone.

18 MR. GARTEN: Have you given them a
19 recommendation as to what you suggest they do?

20 MS. DAVIS: Not formally. Informally and
21 orally we have suggested perhaps bumping that to
22 \$1,000.

1 MR. GARTEN: And keeping track.

2 MS. DAVIS: Right.

3 MR. GARTEN: And there are computer systems
4 that will do that?

5 MS. DAVIS: Yes, yes.

6 MR. GARTEN: Okay.

7 MR. MCKAY: Any other questions, Herb?

8 MR. GARTEN: That's it.

9 MR. MCKAY: All right. Any other questions
10 from the committee?

11 (No response.)

12 MR. MCKAY: I am wondering if there is some
13 way, so we can keep track of this -- we might have
14 trouble reading this in the audit letter -- when will
15 we see your report, by the way?

16 MS. DAVIS: We will issue the draft report at
17 the end of next week. We issue it to the IG.
18 Management is then brought in for their review. Once
19 they have, you know, reviewed and approved that the
20 facts, as they're stated, appear to be correct, then it
21 needs to be accepted by LSC, and we will finalize it.

22 MR. MCKAY: I'm just wondering if there is

1 some way we can figure out a way to track this question
2 of accounting for fixed assets. Is it going to be
3 clear in your memo -- I guess my understanding is that
4 your report will not have it clear, but you've been
5 doing it orally. I'm wondering if there is some way
6 you could memorialize that in a memo to us so we can
7 better understand that we can monitor that.

8 MS. DAVIS: We can certainly do a side memo,
9 just to --

10 MR. MCKAY: Yes, could you?

11 MS. DAVIS: -- to explain the history of the
12 improvements --

13 MR. MCKAY: Could you do that? Yes.

14 MS. DAVIS: -- along those lines, yes.

15 MR. MCKAY: That would be helpful, because I
16 would like to add that to our list that we would
17 monitor.

18 MS. DAVIS: Okay.

19 MR. MCKAY: Getting back to the auditing
20 standard that you indicate will require a more active
21 role on our part, you held up a document. Is that one
22 that contains just the one auditing standard?

1 MS. DAVIS: This is --

2 MR. MCKAY: Or is it all of it?

3 MS. DAVIS: No, this is "The Auditor's
4 Communication With Those Charged With Governance."

5 MR. MCKAY: I'm wondering if you could
6 arrange to send a copy of that to the committee. Is
7 that something the entire board would want? I know I
8 think the committee should look at now, rather than
9 wait for a --

10 MS. DAVIS: I could work with the IG here to
11 -- for you all to get copies of it.

12 MR. MCKAY: Okay.

13 MS. DAVIS: Yes. That absolutely would be a
14 requirement that you read that.

15 MR. MCKAY: Okay, okay. Does the requirement
16 include anything about the existence of a compliance
17 program?

18 MS. DAVIS: No, not specifically.

19 MR. MCKAY: Thank you. Any other questions?

20 MS. DAVIS: May I add one more thing at the
21 end, here? One of the things that it does
22 say -- again, I indicated that these new standards

1 require we use a risk-based approach. One of the
2 things that we will evaluate under that is the adequacy
3 of the communication that we have with those charged
4 with governance.

5 If, for some reason, at the end of the audit
6 we determine that that communication has been
7 inadequate, it would be factored into our -- the
8 increased risk related to the overall audit, and we now
9 could report it as a deficiency, or a weakness, within
10 the organization.

11 MR. MCKAY: What does that mean?

12 MS. DAVIS: Well --

13 MR. MCKAY: That's accounting talk.

14 MS. DAVIS: It just means --

15 MR. MCKAY: Could you break that down into
16 monosyllabic terms?

17 MS. DAVIS: In other words, if for some
18 reason, when in our dialogue through the audit, as we
19 implement the standard, if for one reason or another I
20 do not believe that I have been allowed adequate
21 opportunity to communicate, or that the two-way
22 communication has not been adequate for the purposes

1 that need to be met within the audit, that it could now
2 be part -- it could be an audit finding.

3 MR. MCKAY: And that hasn't been an issue
4 here?

5 MS. DAVIS: No.

6 MR. MCKAY: Okay.

7 MS. DAVIS: No.

8 MR. MCKAY: But --

9 MS. DAVIS: But I mean, this is -- but now
10 this is going to establish a relationship that has not
11 existed before.

12 MR. MCKAY: Very good.

13 MS. DAVIS: So --

14 MR. MCKAY: Frank, did you have some
15 questions?

16 MR. STRICKLAND: A couple of questions. With
17 respect to -- you're using the term "those responsible
18 for governance." I take it that is --

19 MS. DAVIS: It's "those charged with
20 governance."

21 MR. STRICKLAND: "Charged with governance."

22 MS. DAVIS: That's part of the --

1 MR. STRICKLAND: Which also means the entire
2 board.

3 MS. DAVIS: That's correct.

4 MR. STRICKLAND: Well, to start with, the
5 board is a part-time board, as a matter of law. In
6 other words, we don't meet every month. Although I did
7 discover yesterday we had about 10 meetings during
8 2006, 5 of which were in-person meetings.

9 But at some point, isn't it the case with any
10 board, not just this board, that board members have to
11 rely on what others tell them?

12 MS. DAVIS: Correct.

13 MR. STRICKLAND: Starting with you.

14 MS. DAVIS: Correct.

15 MR. STRICKLAND: In other words, if you tell
16 us the audit is -- you've done your job, and the audit
17 is a solid audit, and you've found no irregularities, I
18 think that at that point -- in other words, when you
19 make that pronouncement in the form of your clean
20 opinion, that we are entitled to rely on that.

21 MS. DAVIS: Correct. That's correct.

22 MR. STRICKLAND: And that we don't have a

1 duty to inquire beyond that. Is that right? Is that
2 your understanding?

3 MS. DAVIS: As it relates to the opinion
4 itself, yes. I would say so.

5 However, I think, as I have indicated, like
6 with the management letter and you all inquiring about
7 the history of the fixed assets, those are the types of
8 inquiries -- and many -- and frequently, it's the
9 management letter that's more on point that may raise
10 those kinds of questions.

11 MR. STRICKLAND: But I guess what I'm getting
12 at is we don't have to go try to do the audit
13 ourselves.

14 MS. DAVIS: No, no, no, no, no.

15 MR. STRICKLAND: We are entitled to rely on
16 those who do that professionally.

17 MS. DAVIS: Right. And so, certainly, say
18 you had an audit committee and that audit committee
19 then is tasked with getting involved in this
20 implementation of 114.

21 MR. STRICKLAND: Right.

22 MS. DAVIS: And that is where the dialogue

1 and the detail is going on, and the audit committee
2 then reports back to the board, yes. But you do have
3 in place the necessary elements there, that you will be
4 informed, so that you will know you wouldn't have to be
5 in the minutiae of it.

6 MR. STRICKLAND: I just wanted to make sure
7 that the new standards that are being imposed on all
8 corporations, including non-profits now, don't require
9 the board to go behind the audit, if you will.

10 MS. DAVIS: No. But for example, since we're
11 going to have to use a risk-based approach in our
12 planning stage, we will have to identify what appear to
13 be risks, audit risks. And so, I would anticipate that
14 part of the communication with the finance committee
15 would be to discuss those risks. And then we would
16 apply procedures to address them, and then draw
17 conclusions based on a final assessment of those risks
18 at the back end.

19 You won't see that information in an audit
20 report. But it's being -- in that sense, being a part
21 of the process, you would then get to see a little bit
22 different perspective on the organization.

1 MR. STRICKLAND: One more. Excuse me for
2 taking the time, here. But the process that we follow,
3 as I understand it -- correct me if I'm wrong on this,
4 Kirt -- but as opposed to the finance committee itself
5 engaging the independent accountants, you do that for
6 us, right?

7 MR. WEST: That's correct.

8 MR. STRICKLAND: And so let me ask Nancy, a
9 lot of your clients don't have an inspector general in
10 the mix. And I take it there is not an issue with
11 that. In other words, that the finance committee can
12 delegate the responsibility of engaging the outside
13 auditor for us, as opposed to doing it directly.

14 MS. DAVIS: Correct.

15 MR. STRICKLAND: Is that okay?

16 MS. DAVIS: Yes. You all, because you're
17 sort of a mix here, as a not-for-profit but have your
18 own inspector general --

19 MR. STRICKLAND: Right.

20 MS. DAVIS: -- in the federal arena, when we
21 do audits of federal financial statements, we are hired
22 by the inspector generals within those agencies.

1 MR. STRICKLAND: That is consistent with the
2 other --

3 MS. DAVIS: Correct. It's just that federal
4 agencies do not have a board of directors. So that is
5 where your mix --

6 MR. STRICKLAND: I wanted to make sure we
7 weren't shirking our responsibilities --

8 MS. DAVIS: No.

9 MR. STRICKLAND: -- by having him do that for
10 us.

11 MS. DAVIS: No.

12 MR. STRICKLAND: Okay.

13 MS. DAVIS: No.

14 MR. STRICKLAND: Thank you.

15 MR. MCKAY: Tom?

16 MR. MEITES: I must have missed something.
17 It's rare. This sounds like it's going to cost us a
18 lot of money. A lot more accounting, which means a lot
19 more expense.

20 Let me just make a few observations.
21 Sarbanes-Oxley was passed in the wake of financial
22 mismanagement in for-profit corporations. I am not

1 aware of any systematic problems in the not-for-profit
2 area. If someone knows of any Enron-like events in the
3 not-for-profit area, I would like to hear about it.

4 So, my basic perception is that we are, and
5 were, doing fine. And I would like to know why we
6 should import into our corporation, with the attendant
7 expense and dislocation of management efforts, a set of
8 rules and guidelines developed to cause a problem -- to
9 cure a problem that does not exist in the area we
10 operate, to impose rules that are designed for
11 for-profit operations, and have little relevance to an
12 organization like ours.

13 Are we required to do this by law, or are we
14 doing this out of some notion this is best practices?
15 And if it is best practices, I would like to have a
16 full discussion of why anyone thinks incurring the
17 additional bother, expense, and time is worth the
18 effort.

19 You can respond, if you want to, but I am
20 just --

21 MS. DAVIS: It is now a -- if you are to have
22 audited financial statements, these are now the

1 requirements in order to do so.

2 MR. MEITES: Requirements imposed by whom?

3 MS. DAVIS: The Auditing Standards Board of
4 the AICPA.

5 MR. MEITES: And why does that apply for
6 not-for-profit corporations?

7 MS. DAVIS: Because they, the Auditing
8 Standards Board, sets the standards under which our
9 profession conducts audits for not-for-profits. They
10 are the rules under which we professionally have to
11 comply.

12 MR. MEITES: And the auditing standard -- is
13 that the name of the --

14 MS. DAVIS: Correct.

15 MR. MEITES: And what is its relation to
16 entities created by federal statute?

17 MS. DAVIS: It applies. I mean, auditing
18 standards -- the yellow book, the
19 government -- generally accepted government auditing
20 standards incorporate, by reference, all of the
21 standards issued by the Auditing Standards Board.

22 The only other audit standards board out

1 there is the PCAOB, and they are now issuing auditing
2 standards for public corporations. Every other entity
3 out there -- government, private, not-for-profit -- are
4 governed by Auditing Standards Board rules in order to
5 obtain and have audited financial statements prepared
6 and issued.

7 MR. MEITES: Well, I have been a supporter of
8 Sarbanes-Oxley as a reader of the Wall Street Journal.

9 And I have seen many small businesses complaining of
10 the oppressiveness of these standards. And given my
11 political outlook, I have thought that that was a lot
12 of hot air. I have been corrected.

13 MR. MCKAY: Does your reading of the Wall
14 Street Journal extend to the editorial page?

15 (Laughter.)

16 MR. MEITES: It sounds like we're putting
17 stuff that the accountants have managed to -- in my
18 view -- common sense in the not-for-profit area. But
19 unless someone -- Herb, you can suggest a way out of
20 this?

21 MR. GARTEN: This applies to condominium
22 associations, as well.

1 MS. DAVIS: I think that the thing to
2 understand is as these standards -- part of the reason
3 there has been this gap in time between the
4 issuance -- between Enron and now the impact on
5 not-for-profits has been this very issue.

6 MR. GARTEN: There are press reports of
7 relief from some of these that may come about, in time.

8 MS. DAVIS: And that's why I believe next
9 year it's important for me to sit down with you all,
10 after you have had a chance to look at this standard,
11 and to decide how these standards can best and most
12 efficiently be implemented for the purposes that you
13 have here.

14 MR. MCKAY: And perhaps if we can get a copy
15 of that standard, and we could look at it, and then
16 maybe a quarter out, three months out of the
17 implementation, perhaps we could have you come back and
18 we can talk about this.

19 MS. DAVIS: Absolutely.

20 MR. MCKAY: And we can find efficient ways to
21 abide --

22 MS. DAVIS: Right. That's why I said this

1 time next year --

2 MR. MCKAY: -- by the rules, however painful
3 they might be.

4 MS. DAVIS: Right.

5 MR. MCKAY: I would just observe that there
6 are non-profits out there that have been the victims of
7 fraud.

8 MS. DAVIS: Oh, extensive fraud.

9 MR. MCKAY: For instance, financial fraud. I
10 think there is one -- and I will not name it, because I
11 don't remember if it's the exact one -- but it was a
12 non-profit organization and a particular individual was
13 indicted for embezzlement. And the idea is we -- not
14 to cast aspersions on anyone here, but we have to, as
15 members of the board, remain vigilant. I am assuming
16 the standard would help us improve in that regard.

17 MS. DAVIS: Well, and also because you all
18 have a unique relationship, because your funding
19 is -- you have a lot of -- you have congressional
20 oversight.

21 MR. MCKAY: Right, yes.

22 MS. DAVIS: You're under a spotlight that the

1 average not-for-profit is not.

2 MR. MCKAY: Correct, yes.

3 MS. DAVIS: And so, that -- you know, being
4 fully compliant, I think, is in your best interests.

5 MR. MCKAY: Right. Thank you very much. Any
6 other questions?

7 MR. STRICKLAND: One observation. By way of
8 suggestion, it seems to me that the first time -- and
9 maybe every time -- that the board or the finance
10 committee goes through the exercise of meeting with you
11 and planning the audit, et cetera, that it ought to be
12 an in-person.

13 You mentioned the possibility of a conference
14 call meeting. I am just making the suggestion that we,
15 as a matter of policy, should have that be an in-person
16 meeting, unless there is wide disagreement on that.
17 Does everybody think that's a good idea? Seems to me
18 that --

19 MR. MCKAY: Sure do.

20 MR. STRICKLAND: Right. Thank you.

21 MR. MCKAY: Thank you very much.

22 MS. DAVIS: You're very welcome.

1 MR. MCKAY: It's been very helpful. Kirt,
2 you have anything else to add?

3 MR. WEST: No, I don't.

4 MR. MCKAY: All right, thanks so much. Next
5 item is item number four, presentation of financial
6 reports for the first two months of Fiscal Year 2007.
7 Mr. Richardson and Mr. Jeffress.

8 PRESENTATION ON LSC'S FINANCIAL REPORTS
9 FOR THE FIRST TWO MONTHS OF FISCAL YEAR 2007

10 MR. RICHARDSON: Good morning. For the
11 record, I am David Richardson, the treasurer of the
12 corporation. I will be referring to page 73 in
13 your -- 173 -- that's in the board book, and then the
14 pages that follow.

15 You're going to hear this a couple of times
16 this morning, but the budget that is before you is the
17 budget currently that was in place last year. We
18 adopted this budget in July. We did not have
19 information regarding the continuing resolution. We
20 didn't have the -- that is, the funding for this year.
21 We also did not have the current carryover.

22 So, what we did was we asked the -- and the

1 board approved a temporary operating authority based on
2 just continuing operations at the same level.

3 So, when you're looking at this budget, it is
4 versus the 2006 budget. Therefore, in the memo,
5 starting on page 173 again, what I have done is I have
6 looked at the comparisons between spending in each
7 office, instead of a comparison of the budget.

8 We are well within budget, with the funds
9 that we contemplate spending. The management
10 administration, which is the larger one -- because we
11 normally don't reward our grants until December, so
12 there is very little spending in the grants
13 lines -- but within management administration, we are
14 spending \$61,000 more in 2007 than we did in 2006. And
15 the IG's office is actually spending about \$28,000 less
16 than the same time last year.

17 The memo goes into the increases, such as the
18 board of director's spending is up because of some
19 consulting costs that were paid. The office of legal
20 affairs spending is under, because last year we had one
21 less employee than it currently does now. And -- or
22 currently has one less employee than it did this time

1 last year, and because outside fees, consulting fees,
2 are down.

3 Most of the other operations are pretty much
4 even. I won't go through all of those, since they are
5 in the book. But the spending is well within the
6 framework that we are even currently bringing to you in
7 the next agenda item, as far as spending for 2007 with
8 how we continue to operate.

9 We're very diligent in watching our spending.

10 We continue to do that on a monthly basis. We are now
11 giving you reports on a monthly basis, and as we finish
12 this particular meeting, hopefully approving a revised
13 budget based on our continued resolution and the
14 carryover for 2006, the reports will be more
15 meaningful, as far as comparisons to the budget. And
16 then we will also continue to compare the spending from
17 month-to-month last year, also.

18 So, I think it will help us in our review,
19 and continue to help us in making sure that we are
20 spending within the framework that we have set for you.

21 On pages 174 and 175, you will see that -- a
22 quick glimpse, what I did from the reports that you

1 have attached to this, you have got the budget, of
2 course, and 2007 spending -- and we compare that, also,
3 to 2006 budget and spending. So, as I said, in
4 comparing the actual amount spent for 2007 to 2006,
5 there is the detail by office, where we're spending a
6 little over \$60,000 more, and in the particular offices
7 where you will see there is an increase or decrease
8 there.

9 Same thing with the management and
10 administration. Within the budget categories I have
11 provided the same information, where you will see that
12 the compensation is up slightly through the
13 corporation. Temporary employee pay is down.
14 Communications is up a little bit. The offset is in
15 other operating, which is down a like amount.

16 And then our capital expenditures last year,
17 we had some start-up costs of course, when we were
18 changing our work site, getting the programs in, and
19 getting things established, and working through the
20 years. So we do not have those costs this year. It's
21 a very quick overview, but --

22 MR. MCKAY: Getting back to 174, David, if I

1 could, looking at the chart in the middle of the page,
2 if we could focus on line 8, "program performance,"
3 significant increase. As I understand that, this is
4 because we have filled slots that were vacant, or
5 actually we switched positions and we have more
6 employees in the program side of the shop at this
7 point, and also includes more site visits. Is that
8 correct?

9 MR. RICHARDSON: That's correct, and there is
10 also a greater use of consultants in that particular
11 line.

12 MR. MCKAY: And I will get to that in just a
13 second. Same thing with compliance and enforcement.
14 We have more site visits, and that's the main reason
15 for the increase there?

16 MR. RICHARDSON: Yes, I --

17 MR. MCKAY: Obviously, something I think most
18 of us endorse for both items. But can I ask you about
19 the consulting costs?

20 MR. RICHARDSON: Mm-hmm.

21 MR. MCKAY: What are consulting costs? I
22 know sometimes that is used, and that means lawyers,

1 particularly when it comes to the board of directors'
2 increased costs. But with regard to those two line
3 items, program performance and compliance in
4 performance, what are the consulting costs there?

5 MR. RICHARDSON: For instance, in compliance
6 enforcement, we currently have 17 staff positions
7 budgeted, with 2 open positions, so there is 15. For
8 them to do their work, they supplement it with a group
9 of consultants, so that we may send three staff members
10 on a trip, and a consultant. And then that consultant
11 works on that particular review to supplement that
12 staff, so that they're not -- basically, so we can
13 stretch our money a little bit more, and then we have
14 the expertise with those people who have the experience
15 to go on the trips.

16 MR. MCKAY: Could you give me an example of a
17 consultant? Maybe I should be asking Karen or Danillo
18 that question. But perhaps you can tell us. I mean,
19 how does that stretch it, and what kind of person would
20 that be, and how is that an economic benefit, as you're
21 implying?

22 MR. RICHARDSON: Well, for instance, we have

1 employees who have left the corporation because of
2 moving, family situations. And they have an expertise
3 that we have developed through the years.

4 So, what we do is, if they are
5 available -- and we have probably five or six, as I can
6 recall, maybe not that many, who have experience in the
7 corporation, who, when we go on a trip, that we can
8 say, "Okay, we -- our employees have been traveling, we
9 would like for you to take this trip for us."

10 So -- and we pay them a daily fee for them to go on
11 that trip, using the expertise that they developed by
12 their employ with us.

13 Additionally, there is times that we hire
14 attorneys. We -- I think it was December, it may have
15 been November of this year, we advertised to increase
16 our pool. So we have attorneys come in that we provide
17 our Acton Regs with, and then when they go on site,
18 they are teamed up with experienced staff members to
19 conduct a case service, case reporting, case management
20 system review while they're in the field. We're not
21 paying them full time, so --

22 MR. MCKAY: So, instead of paying

1 someone -- having someone on staff full time, you
2 essentially pull some of these folks in at a time when
3 you need them.

4 MR. RICHARDSON: That is --

5 MR. MCKAY: -- which certainly sounds
6 economical. Is there anything you wanted to add on
7 that regard, Karen?

8 MS. SARJEANT: I was just going to add that
9 because of -- as you heard yesterday -- the intensity
10 of the compliance and enforcement visits, we need to
11 have a fairly large team on most visits. And we don't
12 have a sufficient staff size to support that. And
13 using consultants who have done the work before is just
14 a much more efficient way of getting the kind of
15 coverage we need in the field to do that.

16 MR. MCKAY: All right, all right. Thank you.

17 And you're finished, David? Anything --

18 MR. RICHARDSON: Well, I was just going to
19 turn the page to --

20 MR. MCKAY: I'm sorry.

21 MR. RICHARDSON: -- 176, just to call your
22 attention to the spending of the inspector general's

1 office. Their spending is down slightly. That's
2 because they do have less employees and they haven't
3 been traveling as much. But -- and the consulting
4 costs are down. Just a review, to show you that their
5 spending is within line, and actually less than last
6 year.

7 MR. MCKAY: Okay, thank you. Charles? I'm
8 sorry?

9 MS. PHILLIPS: David, I have a couple of
10 questions for the -- four year plan.

11 MR. RICHARDSON: I can't hear you.

12 MS. PHILLIPS: I'm sorry. In October, you
13 mentioned that you were going to hire two more
14 employees. And I was wondering, were they hired yet?

15 MR. RICHARDSON: Okay. At the end of last
16 year, we had -- I think it was 11 or 12, may have been
17 higher -- open positions. Because of the constraint on
18 our funding for the next two years, we have decided to
19 not hire some of those positions. I think
20 currently -- and I think you're going to report
21 that -- I think we have eight or nine open positions,
22 currently. So we have filled some, but we have also

1 eliminated some of those positions, also.

2 MS. PHILLIPS: And what about the software
3 that was mentioned that you guys were supposed to
4 purchase for the FOIA?

5 MR. RICHARDSON: I don't have information on
6 that at this point.

7 MS. PHILLIPS: Do you?

8 MR. JEFFRESS: The FOIA report you're
9 referring to were a series of things that we're
10 planning to do to implement that FOIA. The executive
11 assistant in the office of legal affairs who we expect
12 to assist in that process has not yet been hired,
13 because we continue to interview for that position.
14 The software has not yet been purchased. There is
15 still a discussion of whether that software will do
16 what we need to do.

17 MS. PHILLIPS: And I had a question regarding
18 the EJM Magazine. When was the last issue?

19 MR. JEFFRESS: Last year, this time.

20 MS. PHILLIPS: Oh. And staff has been
21 working on it? Because I went to the website, and it
22 says that you had a designer, a design director.

1 MR. JEFFRESS: We have, in the --

2 MS. PHILLIPS: In the GR --

3 MR. JEFFRESS: Government affairs?

4 MS. PHILLIPS: Yes.

5 MR. JEFFRESS: Right. And public relations.

6 We have a communications director, Barbara Muldaur,
7 and we have a designer -- I don't know that their title
8 is director, but we have a designer -- Marcus Navaro.
9 Those are folks who are on staff, yes.

10 MS. PHILLIPS: Okay.

11 MR. MCKAY: Any other questions for David,
12 before we go to Charles?

13 MS. PHILLIPS: Oh, I'm sorry. Special
14 counsel. I can't tell in the budget where it is. Is
15 it in the budget for special counsel?

16 MR. RICHARDSON: There is -- included in the
17 revised budget that we will be talking about later this
18 morning, there is a special counsel for four months,
19 projected in the spending.

20 MS. PHILLIPS: I would just say we have to be
21 careful, because of the criticism that we received
22 during the investigation. We have to be careful, I

1 would believe, that we would have to be careful
2 regarding special counsel, hiring special counsel. But
3 that's just my opinion.

4 MR. JEFFRESS: If I can chime in there, while
5 we do have it in the budget for three months, President
6 Barnett has no plans at this point to fill the special
7 counsel position.

8 One of the reasons why it remains in the
9 budget is, on the Senate side, the -- Senator Harkin
10 has been one who has led the fight to increase LSC's
11 budget over the last years. He has sponsored the
12 amendments to raise our budget to \$358 million. His
13 staff person has said to us that bringing in someone
14 from the field in a special counsel position is the
15 single best thing that has been done, because it shows
16 that the corporation is listening to the people from
17 the field, and wants the input from the people who are
18 actually providing legal assistance.

19 So, there is some -- I would say different
20 perspectives on Capitol Hill about the value of that
21 position. While there are no plans to fill it, I think
22 zeroing it out would perhaps send the wrong message to

1 our appropriations champion at this point.

2 MS. PHILLIPS: I would just say be careful.

3 MR. JEFFRESS: I think good advice.

4 MR. MCKAY: And I agree. And I would think
5 that everyone should know that perhaps the best message
6 to the field is that our president came from the field.

7 MR. JEFFRESS: Right.

8 MR. MCKAY: Mr. Jeffress?

9 MR. JEFFRESS: Thank you, Mr. Chairman. I am
10 going to speak about the memo that is on page 182 of
11 your book, and the chart that follows that. As David
12 said, our spending for this fiscal year is well within
13 the budget. And so I don't have any comments on the
14 spending for October or November.

15 What I did comment on in that memo that has
16 been shared with you is that with a -- essentially a
17 flat budget for 2006, 2007, you know, assuming the
18 continuing resolution passes as-is, and a very small
19 increase requested by the board of directors for 2008,
20 we will have a flat budget for three years running.
21 But it doesn't mean our expenses don't increase each
22 year.

1 So, David and I, in looking at the projection
2 for 2007 and 2008, are concerned that the budget that
3 you all authorized in July, based on our best
4 information at that point, is too generous for what we
5 should be spending in 2007 and 2008. So we are
6 recommending to you that you decrease -- lower the
7 budget for 2007, and that we lower what our expectation
8 has been for 2008.

9 The concern that we have is at this point we
10 spent -- in 2006 we spent about \$12.6 million. In
11 2007, the budget which you all approved was for \$14.7
12 million.

13 The difference in the spending -- the reason
14 for the lower spending in 2006, as we discussed at the
15 last meeting in October, there were a number of
16 unfilled positions which we were evaluating,
17 determining how best to use those positions, and we
18 were doing fewer visits to the field, in terms of
19 compliance and program support, than we hoped to do.

20 So, we transferred positions from
21 administrative offices to our compliance office and to
22 our program office, asked them to gear up, and asked

1 them to do more program visits in 2007 and 2008. With
2 that transfer of positions, with the expansion of
3 program visits, we expect that the 2007 and 2008
4 spending will be closer to what the budget actually
5 was, which was \$14.7 million.

6 However, with an appropriation of only \$12.6,
7 about \$400,000 in interest generated from our accounts,
8 that gives us about \$13 million in cash in hand. We
9 have a little over \$2 million, \$2.1 million, in
10 reserve, as a result of the carryover from unspent
11 monies in the past couple of years.

12 We -- David and I -- believe that we should
13 save some of that money for 2008, and budget
14 approximately \$1 million of that money for 2007, and
15 another \$1 million for 2008. This would enable us to
16 operate at a budget of \$14.3 million for 2007 and 2008,
17 and that -- those budgets would be supported by the
18 expected appropriation, by the interest, and by the
19 carryover.

20 Now, that leaves us at the end of 2008, if we
21 spend at the budgeted level, with no reserves. I
22 expect there probably will be some. There will be

1 staff turnover the next two years, there will be some
2 reserves generated by salary money that is not spent,
3 but we think it's prudent at this point to lower the
4 2007 budget and carry forward some of that money into
5 2008.

6 We also -- the agenda item which you added to
7 your agenda, we believe in order to avoid having zero
8 reserves at the end of 2008, we would request that the
9 board reconsider its 2008 request to Congress, and add
10 to that request to Congress for 2008, not in the
11 expectation that we will get it all, but in the
12 expectation we might get some of it, and therefore not
13 be in such a tight budget situation at the end of 2008.

14 So, I realize this was for a financial report
15 on the first two months of 2007, and I -- and the first
16 two months of 2007 are fine. But because of the crunch
17 I see coming, we thought it best to give you a heads up
18 about where that's going, and have you consider
19 lowering the budget for 2007, and we would propose a
20 temporary operating budget that does lower that, and to
21 increase the request for 2008 to reduce the crunch in
22 2008.

1 MR. MCKAY: Your presentation now has morphed
2 into the next two items on the agenda. I just want to
3 invite the finance committee's attention to that. So I
4 would like to officially move on to item number five,
5 which is consider and act on adoption of revised
6 temporary operating budget for Fiscal Year 2007, which
7 you began to touch on, then you began to talk about the
8 next item, which is the 2008 appropriations request.

9 CONSIDER AND ACT ON ADOPTION OF REVISED
10 TEMPORARY OPERATING BUDGET FOR FISCAL YEAR 2007

11 MR. MCKAY: But let's talk about the revised
12 temporary operating budget, and your motion. And I
13 have handed out a resolution. Attached is the proposed
14 budget. I would ask you again -- I think we're seeing
15 this for the first time today -- to the extent
16 possible, I really would like this to get to the
17 committee ahead of time so we can study this and ask
18 questions.

19 MR. JEFFRESS: I will say, Mr. Chairman,
20 David pointed out to me page 184 and 185 in your book,
21 that came along with your book, it gave our best
22 estimate at the time of what the 2007 budget might be.

1 And you will see a \$14.3 million bottom line on page
2 184 was our estimate at the time.

3 It has been tailored, and it is slightly
4 revised in what is before you today --

5 MR. MCKAY: And I realize that this meeting
6 is a week sooner than -- but really, to the extent that
7 we can, even fax this thing to us so we can at least
8 look at it on the plane --

9 MR. JEFFRESS: Okay.

10 MR. MCKAY: -- would help us,
11 because -- so -- but your memoranda have helped us.
12 And -- but as I understand it -- let me try to
13 encapsulate this -- the budget that you have -- that's
14 just been placed in front of us reflects a reduction of
15 approximately \$400,000. Is that correct?

16 The idea being that you're seeing the
17 anticipated spending, that we would spend a little less
18 in this fiscal year to have that extra \$400,000 to
19 carry over to the next fiscal year. Is that correct?

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

21 MR. MCKAY: Okay. I think that's what we
22 have been handed. So I would -- is there any other

1 comments about this budget, before we open it up to the
2 committee? I just want to make sure they have said
3 everything before we open it to questions.

4 MR. RICHARDSON: I can just review quickly
5 some of the overall changes that have --

6 MR. MCKAY: I think that would be helpful,
7 unless someone -- yes.

8 MR. RICHARDSON: Okay.

9 MR. MCKAY: Please.

10 MR. RICHARDSON: And I will talk in round
11 numbers, so we're not getting down to the
12 dollar-for-dollar.

13 When you adopted the budget in July, as I
14 stated before, it was on the 2006 operating premises.
15 That budget was \$332,760,000. That included what we
16 believed would be the funding at that point, the
17 continuing resolution, which in fact, is what we're
18 continuing to do, to offer today.

19 But it is a reduction, based on the
20 carryover. The 2005 carryover was in, of course, the
21 July budget. We now have, because we've completed the
22 audit, we now have 2006 carryover figures. The

1 reduction that we see here is \$1,490,000. The
2 difference is basically \$1.1 million in the delivery of
3 legal assistance, and that's because of the TIG grants
4 being awarded in September. In the past, we have
5 awarded those in November and December, but they
6 fast-tracked them this year. So we don't have that as
7 carryover.

8 Additionally, there is the LRAP money. We
9 had not forgiven one of the loans. So, instead of \$1
10 million, you will see that this is \$997,000, and we
11 forgave about \$3,000 in loans. So that has to be
12 subtracted out.

13 The IG did a projection on his budget, or the
14 spending actually is a \$55,000 increase from the 2006
15 budget. So that will increase his budget line, which
16 is also worked into here.

17 And then, as Mr. Jeffress says, as we're
18 looking at the two-year spending for 2007 and 2008, and
19 actually looking into 2009 also, we see that we're
20 going to have a tight time with money because of the
21 positions that we're trying to hire, and get them into
22 the office. There is nine open positions currently.

1 We have projected those to be hired in February and
2 March. So we have taken that money out to help support
3 other operations this year.

4 But when you -- we have also done some work
5 on the appropriation request, and we see that in 2008
6 is where we are going to have a big crunch on money.
7 When you look at the \$12,660,000, the continuing
8 resolution that we currently have, if we would add the
9 full amount of the carryover, the \$12.1 million, then
10 add the \$400,000 in interest money, it's over a \$15
11 million budget.

12 If we spent all of that, and then we get the
13 12.8 that is currently in the request with \$400,000 of
14 interest income, we would have to cut our budget
15 approximately \$2 million. So what we have chose to do
16 is to present you a reduced spending plan.

17 MR. MCKAY: For this fiscal year?

18 MR. RICHARDSON: For this fiscal year,
19 reducing it to \$14.3 million. That is setting aside \$1
20 million for the 2008 operations. Even with this \$14.3
21 million, we are going to need some carryover from that
22 to make the budget in 2008.

1 So, it's a balancing, and we're going to have
2 to be vigilant in looking at our expenses, reassessing
3 some of the positions that are being contemplated to be
4 hired, so that we can then continue operations in 2008
5 and in 2009.

6 Each year we're giving 3.5 percent or so
7 increase, 4 percent for salary increases, so our costs
8 are going up. Certainly travel and transportation is
9 going up, because of increased airline costs that we're
10 seeing.

11 So, in putting all that together, we are
12 monitoring it very closely, to the point where we can
13 maintain a steady operation for 2007, 2008, and even
14 looking into 2009. We are going to need a significant
15 increase. By using all of our carryover in these two
16 years, we're going to need a significant increase over
17 the \$1 million that we're even asking for this year to
18 help fund 2009.

19 MR. MCKAY: So, primarily because we're
20 filling the slots that have been vacant, and because
21 we're having more compliance and program visits,
22 we -- you anticipate this crunch over the next two

1 years.

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

3 MR. MCKAY: All right, thank you. Bernice?

4 MS. PHILLIPS: I just wanted to understand
5 Charles's memo. Are we talking about getting rid of
6 occupied positions, or are we getting rid of vacant
7 positions? What are we doing?

8 MR. JEFFRESS: The budget that David and I
9 are presenting to you allows for the continuation in
10 2007 and 2008 of currently occupied positions. There
11 are positions -- there is one in government relations,
12 there is one in human resources, there is one in OLA
13 that have been on the books that are zeroed out,
14 they're not going to be funded. The acting special
15 counsel position you talked about was reduced down to
16 \$40,000, and had been more than twice that.

17 So, there have been some vacant positions,
18 either reduced or zeroed out. But the budget, as we're
19 presenting, does not call for reductions of any filled
20 positions.

21 I will say to you, though, that if in fact we
22 do these increased visits, if in fact the program and

1 compliance positions are filled, and there is no
2 increase from Congress, I for one would be very nervous
3 by the end of 2008 about continuing with currently
4 filled positions.

5 MS. PHILLIPS: Have we created positions
6 to --

7 MR. JEFFRESS: No, no new positions have been
8 created. We have taken some administrative positions
9 and transferred them to the program and compliance
10 offices, but we have not created any new ones.

11 MS. PHILLIPS: What positions were those?

12 MR. JEFFRESS: There was a position in the
13 government relations and public affairs office that was
14 canceled out and transferred to program compliance.

15 There was an executive -- not executive -- a
16 special assistant to the president that President
17 Barnett has never filled, but the previous
18 administration used, which was abolished and
19 transferred to compliance.

20 And the third position -- David, help
21 me -- oh, there was another executive assistant
22 position, which we have abolished and transferred to

1 compliance.

2 MR. RICHARDSON: And basically, if I could
3 add, that's through attrition. No one has lost their
4 job. Those were open positions that we simply decided
5 we're not going to hire in the particular office where
6 they were budgeted, but then we moved that money to the
7 program side, to program operations, and also to
8 compliance and enforcement.

9 MS. PHILLIPS: One more question. Did we
10 get -- I didn't receive -- did we get a budget
11 reduction from management to the board? I didn't
12 receive one.

13 MR. JEFFRESS: What's on page 184 and 185 of
14 your book has the budget -- proposed budget reduction
15 for 2007, which would be a part of the temporary
16 operating budget reduction, which we are recommending
17 to you today.

18 It is -- obviously, we would not be setting
19 the 2008 budget until the end of this fiscal year, so
20 there isn't any proposal for an 2008 budget before you.
21 I am just highlighting what we expect to be happening
22 in 2008. But this is -- what's -- what came to you in

1 the book on page 184 is the 2007 reduction.

2 MR. MCKAY: Tom?

3 MR. MEITES: While I support the resolution.

4 If I understand it, it is simply conforming our
5 existing budget to what you think is going to happen.

6 MR. RICHARDSON: Right. That is correct,
7 sir.

8 MR. MEITES: You know, we could do nothing,
9 and have a surprise at the end. But you would rather
10 not surprise us, and tell us what you really think is
11 going to happen. But that's not what I want to talk
12 about.

13 If I understand your remarks, you are
14 assuming, for purposes of this discussion, level
15 funding for 2008, as well?

16 MR. JEFFRESS: Well, we were assuming the
17 \$12.8 million that the board has requested would be
18 funded by Congress.

19 MR. MEITES: Well, it seems to me quite
20 clear, particularly in light of Bernice's remarks, that
21 we have people telling us to do more -- the inspector
22 general, among others -- other people saying that what

1 we do is not good enough, so we should do it better.

2 And we're supposed to do all of this on the same amount
3 of money.

4 Now, we're not Houdinis, and we can't do it.

5 So that someone has to make a choice between giving us
6 enough to do what we're supposed to do, or have us not
7 do what we're supposed to do. And the "someone" is
8 Congress. And I appreciate the efforts of staff to try
9 to fit two pounds of potatoes in a one-pound bag, but
10 it's getting harder and harder.

11 And I understand this is both necessary, and
12 it strikes me as appropriate, but you can only stretch
13 it so far. And it seems to me that we are not going to
14 be able to do our job in 2009, and maybe not in 2008,
15 if we are kept on this meager diet.

16 MR. MCKAY: Any other questions or comments?

17 Mr. Garten?

18 MR. GARTEN: I seem to recall -- and possibly
19 you were the person that proposed it -- that we adopted
20 this budget to begin with, because we wanted to reflect
21 no increase in this particular area. And it's obvious,
22 after further study, that that was the wrong decision

1 at the time we adopted the budget. Does anybody else
2 recall that?

3 MR. MCKAY: Well, I think it was no increase
4 because we wanted to be prudent --

5 MR. GARTEN: Right.

6 MR. MCKAY: -- because we didn't know for a
7 fact what Congress was going to do.

8 MR. GARTEN: Exactly.

9 MR. MCKAY: Right.

10 MR. GARTEN: And also gave a good impression,
11 that we were doing our best to maintain things at a
12 particular level. But it's obvious now that, upon
13 further study, we have to increase this amount. And
14 therefore, I am in favor of the resolution, also.

15 MR. MCKAY: Thank you. Any other question or
16 comments?

17 (No response.)

18 M O T I O N

19 MR. MCKAY: Can I hear a formal motion with
20 regard to item number five?

21 MR. GARTEN: I so move.

22 MR. MCKAY: Second?

1 MS. BEVIER: Second.

2 MR. MCKAY: Any other comment?

3 (No response.)

4 MR. MCKAY: All those in favor, say aye.

5 (Chorus of ayes.)

6 MR. MCKAY: Opposed?

7 (No response.)

8 MR. MCKAY: It passes. And perhaps we could
9 move right on to revising the 2008 appropriations
10 request. Can you briefly summarize that issue? We
11 have touched on it, can you crystalize it now, Mr.
12 Jeffress?

13 This is the revised -- this is the additional
14 item that we have added to the agenda.

15 ACT ON MANAGEMENT'S RECOMMENDATION REGARDING
16 FISCAL YEAR 2008 BUDGET REQUEST TO CONGRESS

17 MR. JEFFRESS: The board has requested
18 \$12.825 million for the management administration
19 account from Congress from 2008.

20 That request has not gone forth to Congress.
21 We did send it to OMB, saying that was what our
22 expectation was. While the president's budget has not

1 yet been released, we expect them to recommend the same
2 amount they recommended last year, or perhaps a little
3 less. So I don't think that the Office of Management
4 Budget considered extensively the board's request.

5 So, at this point, we have no request before
6 Congress. While you -- in October -- excuse me, in
7 September, adopted a \$12.825 million budget for M&A,
8 because of what you've heard today already about we
9 expect that budget to be very tight, and if that is the
10 only money provided, we expect that we will end that
11 year with no reserves if we spend to our budget.

12 We are recommending that the board reconsider
13 that \$12.825 million request for M&A, and add \$1
14 million to that request to become \$13.825, which would
15 not come from any other request. It would not take
16 away from basic field, or anything else, we are simply
17 recommending that you add \$1 million to your request,
18 so your total request would go from \$429 million to
19 \$430 million.

20 And there is a proposed resolution that has
21 been prepared -- I think the chairman is passing out at
22 the moment -- which would effectuate that increase.

1 MR. MCKAY: So, just to summarize, if I
2 could -- or, first, let me ask you a question. When it
3 was presented to the finance committee in September,
4 what was the amount that management was asking for, for
5 this particular line item? Was it 14.7?

6 MR. JEFFRESS: \$14.5 million is --

7 MR. MCKAY: \$14.5 million.

8 MR. JEFFRESS: Yes, sir.

9 MR. MCKAY: And as a result of a
10 discussion -- if I can refresh the recollection of the
11 finance committee -- we were thinking, "Well, geez, if
12 we weren't spending close to 14.7, why don't we come up
13 with 12.6?"

14 And I remember it very well. Sarah
15 Singleton, I thought, was thinking what a lot of us
16 were thinking, "Well, why don't we reduce it?" And I
17 do regret, at the time, that I did not ask for
18 management at that time -- who, I'm sure, was caught a
19 tad bit surprised by it -- to at least give us an
20 indication of what this might do.

21 Upon reflection, as I understand it, the
22 conversations with the two of you, you have had time to

1 think about it, and you are now telling the committee
2 that perhaps we were cutting it too close. And you're
3 asking for \$1 million. Is that correct?

4 MR. JEFFRESS: That's correct. We had
5 requested --

6 MR. MCKAY: All right, and not at the expense
7 of any other line item. We would essentially be
8 increasing our total request to Congress by \$1 million,
9 which would go directly to the M&A line.

10 MR. JEFFRESS: That's right. Because of the
11 reductions we have made, the original request to use
12 14.5 in September, this would make the request 13.8.
13 So we have reduced --

14 MR. MCKAY: So it's still less than what you
15 asked for in September.

16 MR. JEFFRESS: Yes.

17 MR. MCKAY: All right. And just so you know,
18 when we recognized this as an issue, I took the liberty
19 of calling Sarah Singleton -- and she's not
20 participating this morning because of a
21 conflict -- explained to her what we have now heard,
22 and she said that she feels very comfortable with

1 what's being proposed by management, and asked me to
2 report that to the committee.

3 Any other -- let's open it up for questions
4 and comments. Tom?

5 MR. MEITES: Well, I guess what I said was a
6 good prelude to what you just said. I didn't realize
7 that I was setting up the shot that nicely.

8 MR. MCKAY: Thank you very much.

9 MR. MEITES: In light of my comments, I
10 certainly support this resolution.

11 MR. FUENTES: Mr. Chairman?

12 MR. MCKAY: Tom?

13 MR. FUENTES: Our timing here, in this action
14 today, is this of necessity, to act on this today? Or
15 what would be the impact of going another meeting
16 before acting on this?

17 MR. MCKAY: My understanding is we have to
18 have something to Congress fairly soon. But could you
19 answer that directly, Charles?

20 MR. JEFFRESS: Yes, it's --

21 MR. MCKAY: It's a couple of weeks.

22 MR. JEFFRESS: Right. The President's budget

1 is going to Congress on February 5th. Our budget needs
2 to be there by then, preferably a little before then.
3 So the action, if we're going to take the action, needs
4 to be taken now.

5 MR. MCKAY: I feel uncomfortable with us
6 being hit with this fairly late in the ball game. I
7 had asked President Barnett to submit an additional
8 memorandum, which we received before this meeting so we
9 could have a little more analysis. But it is what it
10 is. You know, if we could have a telephone conference
11 a little later, before we have to submit this?

12 I don't want to feel that any member of the
13 committee feels like -- I don't want to use the term
14 "railroaded," but not having enough time to analyze
15 this. Any other questions or comments?

16 (No response.)

17 M O T I O N

18 MR. MCKAY: Do I hear a motion with regard to
19 the resolution that's just been placed in front of you?

20 MR. MEITES: I so move.

21 MR. MCKAY: Second?

22 MS. BEVIER: Second.

1 MR. MCKAY: Any other questions and comments?

2 (No response.)

3 MR. MCKAY: All those in favor, say aye.

4 (Chorus of ayes.)

5 MR. MCKAY: Opposed?

6 (No response.)

7 MR. MCKAY: Passed unanimously. Thank you.

8 MR. FUENTES: Abstain.

9 MR. MCKAY: I'm sorry, one abstention. Next
10 item is staff report on revisions to LSC travel
11 regulations. And Mr. Jeffress, thank you very much. I
12 know you're going to give a summary. I ask that it be
13 brief. We have 14 minutes, and our board chair is a
14 stern task master.

15 STAFF REPORT ON REVISIONS TO LSC TRAVEL REGULATIONS

16 MR. MEITES: Actually, you only have 12
17 minutes.

18 MR. MCKAY: I'm sorry.

19 MR. MEITES: The standard is you have to
20 finish two minutes early.

21 MR. MCKAY: Turns out our ops and regs chair
22 is even more stern.

1 MR. JEFFRESS: Thank you, Mr. Chairman. With
2 that admonishment, I am going to skip the background I
3 was going to do on this, and go right to the changes.

4 MR. MCKAY: Thank you.

5 MS. BEVIER: Is there something in writing?

6 MR. JEFFRESS: No, there is not. We were
7 asked by the board -- we were recommended by the
8 IG -- that we look at the differences in LSC travel
9 policies and the federal travel policies. David and I
10 have done so.

11 There are four areas where the LSC policies
12 are different from the federal policies. There are
13 three areas where we have policies in addition to what
14 the federal folks have.

15 The four areas of difference are: the per
16 diem that's paid on the day that you depart for a trip
17 and the day you return from a trip; the per diem that
18 is paid when you're going during the day but not
19 overnight; whether or not tips are reimbursable, tips
20 to service employees; and the use of Acela Express
21 train service, rather than just the regular Metroliner
22 service. So those are four areas where there is a

1 difference.

2 To make it easy for you, David and I believe
3 we should just adopt the federal policy on per diem for
4 day of departure, day of return, and adopt the federal
5 policy on the use of the Acela train service.

6 In terms of the per diem paid for one-day
7 trips, the federal policy does not allow, if you leave
8 from Washington and go to Chicago for a day meeting and
9 come back at the end of the day, you cannot be
10 reimbursed for any of your per diem expenses. You may
11 be reimbursed for plane fare, but you don't get
12 reimbursed for per diem. LSC allows a reimbursement of
13 up to \$30, upon submission of receipts. We recommend
14 we continue that policy.

15 On tips, the federal government does not
16 allow reimbursement for tips outside of the per diem.
17 LSC has a long tradition of encouraging and supporting
18 the employees tipping our service employees when they
19 service. And so, we are -- at this point, have not
20 recommended a change there. However, since it is
21 different from the federal guidelines, I promised Kirt
22 West that we would talk through this issue some more.

1 But LSC certainly has a tradition of reimbursing tips
2 that are given to service employees.

3 So, those are the four areas that are
4 different, where we are considering making some
5 modifications to the LSC policies, based on the
6 differences.

7 There are three areas where LSC has policies
8 that the federal folks do not. One is the use of
9 Internet airfares, one is the use of car
10 services -- you will remember the IG report recommended
11 that we write a policy on the use of car
12 services -- and third is the reimbursement of client
13 representatives when they come to meetings at our
14 request, we will reimburse them for child care, if
15 necessary.

16 And we recommend that we continue to have
17 policies in these three areas, even though the federal
18 government does not.

19 MR. MCKAY: Are we going to receive a more
20 formal presentation with the proposal at a subsequent
21 meeting?

22 MR. JEFFRESS: The administrative policies on

1 travel are not normally adopted by the board. But once
2 these conversations happen with Kirt next week on the
3 tips area, we would be happy to send you a copy of what
4 the revised policies are.

5 MR. MCKAY: All right. Questions or
6 comments. Tom?

7 MR. FUENTES: Mr. Chairman, I wondered if, as
8 we receive this for management, we could also ask the
9 courtesy of the inspector general to share with us his
10 comments by an adjoining memo.

11 MR. JEFFRESS: I would recommend that, too.

12 MR. MCKAY: Any other questions or comments?

13 (No response.)

14 MR. MCKAY: Thank you very much. Next item
15 is a staff report on progress of comparison of other
16 federal practices to LSC spending practices.

17 STAFF REPORT ON PROGRESS OF COMPARISON
18 OF OTHER FEDERAL SPENDING PRACTICES
19 (IN ADDITION TO TRAVEL) TO LSC SPENDING PRACTICES

20 MR. JEFFRESS: Mr. Chairman, in addition to
21 the travel policies, the OIG report on certain fiscal
22 practices asked us to look at our spending practices,

1 with respect to meetings, meals, and entertainment.

2 We reported to you on the meals change for
3 board members at the last meeting. We are looking at
4 the meetings and entertainment issues, to see to what
5 extent there are differences. We expect at the April
6 meeting, to the extent there are any differences that
7 needed modification, to report to you at that time.

8 MR. MCKAY: Thank you. Any other -- any
9 questions or comments?

10 (No response.)

11 MR. MCKAY: Thank you very much. Thanks,
12 gentlemen. We are on to the next item, which is
13 consider and act on adoption of budget guidelines,
14 which we will hear from Vic and Laurie? Or, I guess,
15 Kirt. It is with great joy that I approach this item
16 on the agenda.

17 CONSIDER AND ACT ON ADOPTION OF BUDGET GUIDELINES

18 MR. FORTUNO: I don't know how much detail
19 you want us to get into. I suspect not very much. You
20 have had the proposed guidelines before you for a while
21 now.

22 I think that the item deserving of attention

1 is paragraph number nine, which was the subject of some
2 discussion management -- well, actually, the general
3 counsel's office and the office of inspector general
4 had some discussions, and the chair of this committee
5 participated in some of the discussion. We have got
6 some --

7 MR. MCKAY: Before we go to nine, maybe if we
8 could just -- let me just take a second and see if I
9 could do one other quick summary, just to remind the
10 committee that this is an issue that, as Vic said, we
11 addressed in July. I think we are ready to move ahead.

12 Remember, the old guidelines had grown a tad
13 bit stale. Our practices began to deviate from the old
14 budget guidelines. And also, the old guidelines had
15 language that maybe was not as understandable as it
16 could be.

17 And so, management and OIG worked together to
18 come up with new guidelines. And in July at our
19 meeting, we had a bit of a stumbling block on paragraph
20 nine, and that was the issue of to what extent the
21 board should be reviewing and approving the IG's budget
22 request. And so, perhaps you could tee it up from that

1 point.

2 MR. FORTUNO: And I think we have worked up
3 some language with which we are both comfortable, and
4 we think it accomplishes the objective of the
5 guidelines, and the language with which I think the IG
6 is comfortable.

7 It's not intended to affect the independence,
8 or interfere with the IG's ability to carry out his
9 duties. So this is language we have worked up
10 together, and are submitting for your consideration.

11 MR. MCKAY: The issue is whether or not, you
12 know, the guidelines require management to obtain
13 approval from the board for changes in the line items
14 after a budget has been adopted, where the change is
15 \$75,000 or greater. And the question was, does the IG
16 have to meet that same requirement, or follow that same
17 requirement.

18 And it turns out that never in the history of
19 LSC has the board ever denied it, or rejected a request
20 from the IG. And I think we are very grateful for the
21 intercession of Mr. West, and certainly the good faith
22 of his staff, to try to come up with language that

1 would make sure that in the future, that if we ever
2 address this issue -- that is, the board would consider
3 rejecting it -- that the board be very careful about
4 understanding what the role of the IG is, and what the
5 responsibilities are.

6 And there is a line. But we decided we would
7 worry about crossing that line if and when the issue
8 comes up, rather than trying to do it in the form of
9 the language of guidelines.

10 So anyway, we're grateful for both your good
11 work, Vic, and the work of the OIG, to come up with
12 language that everyone agrees with. I have looked at
13 it carefully and I agree with it, and hopefully the
14 finance committee feels the same way. But certainly
15 we're open to any questions or comments from the
16 committee.

17 MR. WEST: I would just like to go on the
18 record, since I have spoken, Vic is actually
19 representing my view. I think the language,
20 particularly the last sentence, protects the
21 independence of the office. And since we haven't had
22 an issue in the past, I agree with Mike. There is no

1 reason to fight over something that hasn't happened.
2 And if we ever cross -- you know, we will cross that
3 bridge if we ever come to it.

4 MR. MCKAY: Thank you. Questions or comments
5 from the committee?

6 (No response.)

7 M O T I O N

8 MR. MCKAY: Do I hear a motion to the
9 adoption of these budget guidelines?

10 MR. FUENTES: Move to approve.

11 MR. MCKAY: Second?

12 MR. MEITES: Second.

13 MR. MCKAY: All those in favor, say aye.

14 (Chorus of ayes.)

15 MR. MCKAY: Opposed?

16 (No response.)

17 MR. MCKAY: Abstentions?

18 (No response.)

19 MR. MCKAY: Passes unanimously. Thank you
20 very much. And thanks again to all of you for the good
21 work on that item.

22 We have reached the point of the agenda where

1 it's time for public comment. Does anyone have any
2 comments or questions?

3 (No response.)

4 MR. MCKAY: Consider and act on other
5 business. Is there any other business?

6 (No response.)

7 M O T I O N

8 MR. MCKAY: Do I hear a motion for
9 adjournment?

10 MR. FUENTES: So moved.

11 MR. MCKAY: Second?

12 MR. MEITES: Second.

13 MR. MCKAY: Opposed -- in favor, say aye.

14 (Chorus of ayes.)

15 MR. MCKAY: Opposed?

16 (No response.)

17 MR. MCKAY: Abstentions?

18 (No response.)

19 MR. MCKAY: We are finished, and it's 10:26.

20 (Whereupon, at 10:26 a.m., the subcommittee
21 was adjourned.)

22 * * * * *