

LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

MEETING OF THE
AUDIT COMMITTEE

OPEN SESSION

Saturday, April 17, 2010
10:32 a.m.

Sheraton Tucson Hotel & Suites
5151 East Grant Road
Tucson, Arizona 85712

COMMITTEE MEMBERS PRESENT:

- Victor B. Maddox, Chairman
- Jonann C. Chiles (by telephone)
- Thomas R. Meites (by telephone)
- John G. Levi, ex officio

OTHER BOARD MEMBERS PRESENT:

- Sharon L. Browne
- Thomas A. Fuentes
- Robert J. Grey, Jr.
- Victor B. Maddox
- Laurie I. Mikva
- Martha Minow
- Charles N.W. Keckler
- Hon. Sarah M. Singleton

1 STAFF AND PUBLIC PRESENT:

2
3 Victor M. Fortuno, Interim President and General
4 Counsel

5 Kathleen Connors, Executive Assistant to the President
6 Patricia Batie, Acting Corporate Secretary and FOIA
7 Officer, Office of Legal Affairs

8 David L. Richardson, Treasurer and Comptroller, Office
9 of Financial and Administrative Services

10 Mattie Cohan, Senior Assistant General Counsel, Office
11 of Legal Affairs

12 Karen J. Sarjeant, Vice President for Programs and
13 Compliance

14 Charles Greenfield, Program Counsel III, Office of
15 Program Performance

16 Charles Jeffress, Chief Administrative Officer
17 Jeffrey E. Schanz, Inspector General

18 Joel Gallay, Special Counsel to the Inspector General,
19 Office of the Inspector General

20 Ronald "Dutch" Merryman, Assistant Inspector General
21 for Audit, Office of the Inspector General

22 John Constance, Director, Government Relations and
Public Affairs Office

Stephen Barr, Media Relations Director, Government
Relations and Public Affairs Office

Julie Reiskin, LSC Board Nominee

Gloria Valencia-Weber, LSC Board Nominee

Lillian Johnson, Executive Director, Community Legal
Services, Phoenix, Arizona

Anthony Young, Executive Director, Southern Arizona
Legal Aid, Tucson, Arizona

Don Saunders, National Legal Aid and Defenders
Association (NLADA)

Robert Stein, Standing Committee on Legal Aid &
Indigent Defendants (SCLAID), American Bar
Association

Linda Perle, Center for Law & Social Policy (CLASP)

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P R O C E E D I N G S

(10:32 a.m.)

CHAIRMAN MADDOX: This is the meeting of the audit committee. And once again, I'm pleased to serve in the capacity as the new chairman, chairperson.

For the record, the members of the committee are Tom Meites, who I believe is available on the phone, and Jonann Chiles, who's also on the phone. Is that correct?

MR. MEITES: That's correct.

MS. CHILES: Yes.

CHAIRMAN MADDOX: All right. So we have a quorum of the committee. Are there any other voting members of the committee? I don't believe so.

(No response.)

CHAIRMAN MADDOX: Okay. So the first item on the agenda is the approval of the agenda. Do I hear a motion?

M O T I O N

MR. MEITES: So moved.

MS. CHILES: Second.

CHAIRMAN MADDOX: All in favor?

1 (A chorus of ayes.)

2 CHAIRMAN MADDOX: The motion is agreed to.

3 Item number 2 is the approval of the minutes
4 of the committee's January 29, 2010 meeting. The draft
5 minutes have been presented for review and approval.

6 Is there a motion to approve those minutes?

7 M O T I O N

8 MS. CHILES: So moved.

9 MR. MEITES: Second.

10 CHAIRMAN MADDOX: And seconded. All in favor?

11 (A chorus of ayes.)

12 CHAIRMAN MADDOX: The motion is agreed to.

13 Item number 3 is the follow-up to the fiscal
14 year 2009 annual audit management recommendations. And
15 I believe we're going to have a report from David
16 Richardson, the treasurer/comptroller of the
17 Corporation, and Charles Jeffress, the chief
18 administrative officer. Gentlemen?

19 MR. RICHARDSON: Good morning. For the
20 record, my name is David Richardson. I'm the treasurer
21 of the Corporation. What I'll be referring to today
22 begins on page 26 of your board book.

1 At the last audit committee, there was a
2 discussion in regards to the internal control
3 weaknesses that were identified by our auditors in
4 conducting this year's audit. We had responded to the
5 questions and the recommendations that -- the auditors'
6 recommendations, accepting those. But we were asked to
7 provide some expanded information to the audit
8 committee as to how we come to the place to accept
9 them, and what was done to correct the situations.

10 I won't read these, of course. But number one
11 was a delay in the reports issued by the Office of
12 Compliance and Enforcement. We had a response to that.
13 They laid out, very detailed, some of the policies and
14 procedures we use. And it actually looks like they
15 didn't address all the policies and procedures that we
16 were using at that point.

17 But basically management, in the response,
18 told them that we would review the policies and process
19 for the issuance of the reports, and would revise them
20 to make contingencies such as the request for
21 extensions and OLA opinions, as noted.

22 We've expanded that response and this

1 information is on page 28. And basically, we give a
2 breakdown of the reports, of the ten reports that were
3 reviewed. We feel that three were timely. One was
4 within one business day as far as being late, as far as
5 their own guidelines.

6 Three were not due for completion within the
7 audit period because of one issue or another. And then
8 three involved requiring -- required extended legal
9 review by the Office of Legal Affairs because of the
10 complexities of some legal issues and some -- that were
11 being handled in the courts. So we were very careful
12 in issuing these reports so that we don't run afoul of
13 what's going on in the courts at that time.

14 Two of them were regarding pending lawsuits in
15 regards to 1610.8. So being very careful, we had
16 delayed the issuance of those reports. We're in the
17 process of revising the procedures to better reflect
18 the process of providing the most accurate and helpful
19 OCE information. Management points out that the audit
20 reports, as I just stated, were a bit overstated as far
21 as what was late and what was not.

22 The chart goes into the information as to the

1 timeliness. You'll see that there's a number of them
2 that were marked that we feel were timely. There's a
3 couple that were not because of legal reviews. And
4 there's a couple reports that were due regarding 1610
5 issues, which applied here and caused the reports to be
6 late.

7 There's also problems when we -- the report
8 itself, our guideline says that we can give our
9 grantees a minimum of 30 days to respond to a report
10 because when we do write a report and it goes to the
11 field, they get an opportunity to respond. It doesn't
12 give a maximum point, and they were using the 30 days
13 as the maximum. They had, it appears, misread that.

14 When a grantee gets a report, for whatever
15 reason, they may ask for a 30-day extension. Some may
16 ask for 45 days or 60 days. And we normally grant
17 those so that we can have a full and complete report
18 that is then provided to not only the grantee, but
19 their board of directors. And management is all
20 working in this process, so it's all a collaborative
21 effort when it's being done.

22 Is there any particular questions that I can

1 address about that? Yes?

2 MR. MEITES: Yes. David, this is Tom Meites.
3 First of all, you'll have to speak much louder --

4 MR. RICHARDSON: All right, sir.

5 MR. MEITES: -- and directly into the
6 microphone if I'm to hear you.

7 Second, I think this report is very helpful,
8 and I have a suggest to make. I think ongoing
9 oversight of this shouldn't be in the audit committee,
10 but should be the ops and regs committee. And let me
11 suggest that as part of the board book for every ops
12 and regs committee, we have running total for the year
13 with this the first installment, and just add on each
14 update for each meeting, so ops and regs can assure
15 itself that this timeliness problem is being attended
16 to.

17 MR. RICHARDSON: If I could just restate,
18 you're basically wanting an inventory as to --

19 MR. MEITES: Yes. And to be updated for each
20 board book. And I think, Vic, my suggestion is
21 probably of an ongoing basis. This should be ops and
22 regs rather than the audit committee.

1 MR. FORTUNO: I'm sorry. What was the
2 question?

3 MR. MEITES: The question is whether you want
4 this to remain before the audit committee, and I'm
5 volunteering to move it to ops and regs on an ongoing
6 oversight basis.

7 MR. FORTUNO: That would be fine. But I leave
8 it to the chairs of the respective committees. But I
9 think it would certainly work, come under the
10 operations portion of ops and regs.

11 MR. MEITES: Okay. Let's do that, then.

12 MR. LEVI: I have a question.

13 CHAIRMAN MADDOX: John, go ahead. John Levi?

14 MR. LEVI: On page 2, or maybe it's 27 in the
15 board book, take me through what the manuals -- maybe
16 it's I'm having trouble understanding the manual, so
17 that when a team has been out for a week, it has 60
18 days to give their report to the director?

19 MR. RICHARDSON: That is correct, sir.

20 MR. LEVI: That's the director at LSC?

21 MR. RICHARDSON: Correct.

22 MR. LEVI: If there is -- if I'm understanding

1 it, how long does the LSC director have the right to
2 hold onto that report before it's released? To me, I
3 don't see any such guideline.

4 MR. RICHARDSON: Item 4 talks about reports,
5 after review by the director, must be released to the
6 grantee, with the cover letter allowing 30 days --

7 MR. LEVI: No, no. That allows the grantee
8 30 days. How long does the director have once the
9 directors receive the report?

10 MR. JEFFRESS: I believe -- can we have Karen
11 Sarjeant in regards to that issue?

12 MS. SARJEANT: That is not in the manual. But
13 generally, unless there's one of the reasons that it's
14 going to the Office of Legal Affairs or he's trying to
15 get additional information, they generally get
16 processed pretty quickly out of the director's office.
17 But that is one area in the manual that we have not put
18 a time frame on.

19 MR. LEVI: And could we get a sense at some
20 point of what the normal period of time is?

21 MS. SARJEANT: We certainly can. And I think
22 we can add, too, as was just requested, the board

1 committee, the ops and regs committee, can get an
2 update at each meeting of the reports that are in
3 progress so that you can look at the timeliness issue.

4 MR. LEVI: I also would like to ask, is the
5 60 days for a one-week trip absolutely necessary? Are
6 they ever earlier? And is this maybe not the
7 appropriate time to consider it? But for those of us
8 in practice, this seems like a fairly long period of
9 time. And I would think that a report, maybe, could be
10 coming to the director within 30 days, and that that
11 would be adequate time. That's a question.

12 MS. SARJEANT: In terms of an answer, it is
13 something that we have had discussions about, and we
14 will continue to have discussions about. We will look
15 at the issues of time frames in both manuals and review
16 those and get back to the committee.

17 MR. LEVI: Thank you.

18 CHAIRMAN MADDOX: Mr. Richardson, I just have
19 a question. Where do I go to understand what 1610.8
20 really involves?

21 MR. FORTUNO: That's our program integrity
22 regulation, which appears at Title 45 of the Code of

1 Federal Regulations. It's Part 1610. And that's the
2 regulation that speaks to the other funds, the non-LSC
3 funds received by a grantee and how they can be used.
4 And we refer to that as our program integrity
5 regulation because it governs the -- there can be some
6 connection between the LSC grantee and an affiliate
7 organization.

8 And that really speaks to how close that
9 affiliation can be and still comply with the law that
10 prohibits an LSC grantee from using its funds, any of
11 its funds, for purposes prohibited by the '96 rider,
12 which has been carried over, on private funds.

13 CHAIRMAN MADDOX: Is the substance of that
14 regulation the subject of a Ninth Circuit appeal right
15 now?

16 MR. FORTUNO: Yes, it is. It's been subject
17 to litigation, actually on both coasts. It's been in
18 the Second Circuit, Eastern District of New York up to
19 the Second Circuit, up to the Supreme Court, back down
20 to the Eastern District, up to the Second Circuit, back
21 down to the Eastern District.

22 And in the Ninth Circuit, this is the second

1 of three suits filed out west, one in Hawaii which was
2 resolved some years ago in the Ninth Circuit. But
3 there were two, one by the State of Oregon and one by
4 our grantee in Multnomah County. And that one is still
5 before the Ninth Circuit. The Ninth Circuit has ruled,
6 but the program has asked for reconsideration either by
7 the panel or the court en banc.

8 So yes, it is still --

9 CHAIRMAN MADDOX: They've granted en banc
10 review, haven't they?

11 MR. FORTUNO: No.

12 CHAIRMAN MADDOX: A petition has been filed.

13 MR. FORTUNO: Petition has been filed.

14 CHAIRMAN MADDOX: And we filed a reply.

15 MR. FORTUNO: That's right.

16 CHAIRMAN MADDOX: So either we'll have a
17 further decision from the Ninth Circuit that'll tell us
18 more about 1610.8, or we'll go with the Ninth Circuit's
19 opinion.

20 MR. FORTUNO: We could. It may be helpful for
21 us to prepare a memo that discusses the regulation, the
22 parameters of the litigation and how that would impact

1 on the issuance of reports. We can certainly do that.

2 CHAIRMAN MADDOX: It seemed to be pretty
3 important for us.

4 Charles?

5 MR. JEFFRESS: And Mr. Chairman, John
6 Constance reminded me that the 1610 regulation and all
7 of our other regulations, not only are on our website
8 for the public, but as board members, we provide you
9 with a wiki with a link to significant issues.

10 So if you want to look up 1610, it's on that
11 wiki and on our website.

12 CHAIRMAN MADDOX: Okay.

13 MR. RICHARDSON: On page 30, there's another
14 issue that was discussed in the internal controls. And
15 it regarded the noncompliance with the administrative
16 manual in hiring consultants.

17 There were points in the year where we had not
18 used our contract approval form. What we have done is
19 the recommendation was that we of course follow our
20 procedures in the management response. And what we've
21 indicated that we'll do is that we will follow those,
22 and that LSC will strictly adhere to those policies.

1 And I can tell you, in the first three months,
2 we've had a number of contracts. We have reviewed all
3 of those. We have made sure that the contract approval
4 form and any bidding, competing bids that were needed,
5 have been done.

6 So we're going to issue a report to the
7 president on a quarterly basis basically outlining the
8 compliance with our internal policies. And we will
9 continue to follow that up on a quarterly basis.

10 MS. CHILES: Mr. Richardson?

11 MR. RICHARDSON: Yes, ma'am?

12 MS. CHILES: This is Jonann Chiles. I'm
13 pleased to hear that report. I think that's fantastic.

14 And also, I should have asked this question
15 months ago, but it just occurred to me. Who are these
16 consultants, and what have they been hired to do,
17 exactly?

18 MR. RICHARDSON: Well, we have a variety of
19 consultants. But a lot of times it is for the
20 compliance visits. It's also for the program visits,
21 when we're doing capability assessments, program
22 quality visits. Those are the main ones that we use

1 ongoing.

2 There are also consultants that we use for our
3 network engineering, where we're outsourcing different
4 things, where we have to bring in a specialist to
5 handle something in regards to network and updating,
6 keeping everything running smoothly and have the
7 engineering services that's needed.

8 There is one other area of consultants that we
9 use, and that is in the area of legal affairs. And
10 they normally will talk to a couple of attorneys
11 before, for instance, handling a particular issue, such
12 as we have the issue of the union and the efforts that
13 we're going to be involved with in negotiations. There
14 was three or four different groups that were
15 interviewed before the selection of the group that is
16 advising us at this time.

17 MS. CHILES: That was helpful. Thank you.

18 MR. MEITES: Vic, if I may, I also want to
19 join Jonann in thanking David for this part of the
20 report. This is an area that I guess happens in lots
21 of enterprises, where because consultants are used
22 frequently and they're valuable and the people have

1 relationships, maybe control is getting a little
2 sloppy.

3 But I'm very, very pleased to hear that our
4 procedures are being followed to the letter, which
5 tells me that the people who are supposed to be signing
6 off are signing off on these consultants.

7 CHAIRMAN MADDOX: Thank you.

8 MR. RICHARDSON: Okay. The next item is on
9 page 32 of your board book, and it's the lack of
10 evidence of review of check runs for our grant
11 disbursements.

12 When we first saw this, I had responded to the
13 auditors that I felt we had enough checks and balances
14 in place. We sign off when the grants are made, when
15 we do our payment run reports for the mass of direct
16 deposits that we make each heart.

17 However, there was two, three grantees last
18 year that were on short-term funding. And some months,
19 outside of the regular payment process, we would get a
20 contract renewal or an extension of a grant. We would
21 review the grants. We would post those. We would see
22 that the payments were set up and made. But we weren't

1 signing off on the payment run report. We felt that
2 there was enough in the background that we didn't
3 actually follow that last step.

4 After reconsidering and talking with the
5 auditors, I went ahead and told them that we would do
6 that in the future. So the comment here is the revised
7 response, is the controller or the accounting manager
8 will review the check run and initial them prior to
9 making the payments and prior to them being disbursed.
10 So we will follow it to the letter all the way down the
11 line.

12 In Other Matters on page 33, we had an issue
13 of outstanding liabilities for the technology
14 initiative grants. And they felt that we needed to
15 review those further. We did have some outstanding
16 items that went back to 2000 with the initial grants,
17 and the final payment was not made to some of these.

18 Some of the grantees have since terminated or
19 getting ready to terminate some of their grants. They
20 did a part of the work that was required. And they've
21 basically taken a step back and said, we can't complete
22 it, but we do have a working module, or something along

1 those lines. So we have decided to cancel some of
2 those grants.

3 In addition to that, there were some payments
4 that have been made in the last six weeks to get this
5 down also. In talking with our TIG folks, the
6 coordinators, there's an additional 30 grants that
7 they're working on at this point that they're going to
8 terminate or make final payments to.

9 So while we're looking here at \$2.7 million,
10 and I think Charles has the exact figure here, but
11 there's somewhere in the neighborhood of \$900,000 in
12 payments that are going to be made or cancellation of
13 these contracts.

14 CHAIRMAN MADDOX: Martha?

15 MR. MEITES: Vic, it's Tom.

16 CHAIRMAN MADDOX: Tom?

17 MR. MEITES: David, I was unaware of this, but
18 thank you for bringing it to our attention. It's the
19 unusual situation where we're giving people money and
20 they're reluctant to take it, which is not the usual
21 paradigm for this ago.

22 But it does create a problem. You just can't

1 have money sitting on your books if the people for whom
2 it's intended, for whatever reason, aren't in a
3 position to take it.

4 So let me ask you to do this for our next
5 meeting of the audit committee. Report again on this,
6 on how you're doing.

7 MR. RICHARDSON: We'll be glad to, as I.

8 CHAIRMAN MADDOX: Martha?

9 DEAN MINOW: I have experience with similar
10 problems, actually, specifically with regard to
11 technology. And so this is such a -- quite a large and
12 recognizable problem that I'm wondering whether there
13 needs to be some different practices, such as more
14 frequent reporting or even a feasibility report, how
15 well is the first tranche of money being used before
16 any more money comes, and making it more conditional.

17 As I say, in another context I've seen exactly
18 this problem. And some of it has to do with technology
19 changing. Some of it has to do with over-estimation of
20 capacity. So this is persistent enough that I think it
21 may require a special process.

22 MR. RICHARDSON: We are actually in the

1 process of doing that, working more collaboratively.
2 It looks like that some of the grants were completed.
3 They have a process of the office setting milestones
4 for them to make. They would meet the milestone. We
5 would make the payment. They would send in a final
6 report. We would accept the final report.

7 But there was one additional step: Can you
8 send me my last payment? And that wasn't done. So we
9 do have some of these that have been completed that we
10 are now paying and getting off the books completely.

11 We also had a circumstance where a couple of
12 grants in I think it was 2007, on the TIG side, were
13 shown as being terminated. That paperwork was not
14 forwarded to us. Now that we're looking at balances,
15 they've gone back and found that. And that information
16 will be coming to us so the money can go back into the
17 program to be awarded at that later time.

18 So we are working more collaboratively. We're
19 looking at the balances with eye toward getting these
20 things solved and making sure that our records are
21 complete and that we can sort of add a little leverage
22 saying, okay, you've got a grant from whatever year,

1 2006/2007, what progress you're making, and we need to
2 go ahead and get it fulfilled so that we can enter it
3 and move forward in the process.

4 DEAN MINOW: That sounds exactly appropriate.
5 I just don't know whether the TIG management or
6 oversight is flexible enough to consider a reformation
7 of the promise in light of the initial feasibility
8 experience.

9 MR. RICHARDSON: Actually, I think one of the
10 problems that we've had is they have done that and it
11 has delayed the completion of the grant while they went
12 in a little different direction within the terms of the
13 grant. So that, again, is something that we'll be
14 following.

15 MR. MEITES: David, in light of Martha's
16 remarks, maybe we should take a little deeper look at
17 this. When you prepare the update for the next
18 meeting, why don't you -- just for the audit committee;
19 you don't have to circulate this generally -- why don't
20 you just prepare a breakdown of grants by recipient, by
21 year, and give a little reason as to what either
22 remains to be done or how you propose to close it out

1 so we can see, as Martha suggested, whether there are
2 systemic problems that we should address or this is
3 just the way this unusual world works.

4 MR. RICHARDSON: Yes, sir. We will work with
5 the TIG coordinators and see if we can -- we'll put
6 something together for you.

7 MR. MEITES: Thank you very much.

8 CHAIRMAN MADDOX: Yes, Sarah?

9 JUDGE SINGLETON: This is Sarah Singleton.
10 David, I am not on the audit committee, so I don't
11 really know the genesis for the report finding issues
12 with the TIG grants.

13 But I would like to know the history of that
14 and why it wasn't called out earlier because it was a
15 year ago when I remember asking the people involved in
16 the TIG program whether there was any problem with the
17 grants, the way they were being administered, the way
18 the programs were using them, and none of this came to
19 light. And I don't understand why not.

20 And I don't know -- I want to know if the
21 auditor prior to this audit report has said anything
22 about it. And I want to know why, at the time the

1 question was asked, these kind of outstanding balances
2 weren't talked about.

3 MS. CHILES: Ms. Singleton raises a very good
4 point. I was part of that inquiry on the TIG issue,
5 and I do not recall any mention being made of some of
6 these problems.

7 MR. MEITES: Well, my suggestion, in light of
8 that, is let's do this for -- it's just for the audit
9 committee -- do this at the next meeting. We get the
10 update that we've asked David for, and also, someone
11 from the TIG operations group be present to answer our
12 questions.

13 MR. RICHARDSON: I think that would be helpful
14 because I can't address why that information was not
15 given before.

16 The reason that it has come up now is because
17 in the new audit guidelines, not only do you have to
18 have an understanding of the internal control, you've
19 got to test them. And when you're looking at an
20 \$80 million balance sheet and you've got a \$2 million
21 item on it, it becomes materiality issues, and they
22 haven't addressed it. They've not looked at it in the

1 past. And this year they looked at it and says, oops.

2 Look what we got.

3 JUDGE SINGLETON: And what is this threshold
4 for materiality? Could you just say it again?

5 MR. RICHARDSON: There is no threshold for
6 materiality. It is the accountant's --

7 MR. MEITES: Sarah, don't go there.

8 (Laughter.)

9 JUDGE SINGLETON: All right. Thank you.

10 CHAIRMAN MADDOX: It's fair to say 2 million
11 out of 80 million would be material, though.

12 MR. MEITES: Yes.

13 MR. LEVI: Yes.

14 CHAIRMAN MADDOX: In my judgment.

15 MR. MEITES: Sarah, would that help you with
16 the issue you raised, to get someone from TIG at the
17 next meeting?

18 JUDGE SINGLETON: Yes. That's a good idea.

19 MR. LEVI: Well, and not only that, in any one
20 year don't we just make about -- isn't it 3-1/2 million
21 in TIG grants? Three million, 3-1/2 million?

22 MR. RICHARDSON: Yes, sir.

1 MR. LEVI: So this is a big number.

2 CHAIRMAN MADDOX: So that's an excellent
3 suggestion, Tom. Thank you.

4 Tom Fuentes has suggested that before we move
5 on, if our host grantees' executive directors have any
6 input or comments onto this issue, we'd certainly
7 welcome your thoughts and suggestions.

8 Lillian, if you have any thoughts here?

9 MS. JOHNSON: Actually, I --

10 CHAIRMAN MADDOX: Could you identify yourself
11 for the record, please?

12 MS. JOHNSON: Lillian Johnson, Community Legal
13 Services, Phoenix, Arizona.

14 I'd like to commend this committee and for
15 sure Board Member Minow because that's exactly our
16 experience. It's an ever-changing world. Technology
17 is a very slippery slope. Every time you reach for a
18 particular milestone, you discover that there are other
19 milestones that you really need to work toward.

20 And I think a good understanding of what goes
21 on, and then a policy that does give the staff of the
22 technology group, flexibility in working with programs

1 that receive TIG grants would be very, very, very
2 helpful.

3 And I would like to identify Arizona as being
4 the beneficiary of the flexibility of the staff of TIG
5 because things developed. Despite the fact that each
6 of the three programs have been beneficiaries of
7 particular grants, changes occurred within our state
8 that required that we either delay some of the
9 activities that we had identified that we were going to
10 complete as part of a tech process, or we changed.

11 And I think that's really helpful and
12 important, to have some kind of feasibility report that
13 allows the accountability for the use of those TIG
14 dollars, but also allows some clear flexibility.

15 So I commend the committee for the approach
16 that they're about to take. And thank you for the
17 opportunity to comment.

18 CHAIRMAN MADDOX: Thank you.

19 Yes, Charles?

20 MR. JEFFRESS: Thank you, Mr. Chairman.

21 Charles Jeffress, chief administrative officer.

22 I would say on the TIG grants there are two

1 issues, I think, that underlie this finding by the
2 auditor. One is that we were making a second grant, or
3 sometimes third or fourth grant, to grantees that had
4 an original grant without the first grant being
5 completed. And they found that to be a questionable
6 practice.

7 In fact, it may not be questionable if the
8 first grant is making progress and they simply aren't
9 through, but they also have good capacity to take on an
10 additional grant. However, there were a number of
11 cases where the first grant, that project simply wasn't
12 going to pan out. And rather than closing out that
13 grant before we issues the next one, we went ahead and
14 issued the next one and the first grant just stayed on
15 the books.

16 We put in the grant awards for this year that
17 that can no longer happen, that there has to be, before
18 second grants are issued, satisfactory progress on the
19 first grant or closing out of that initial grant.

20 So that's a part of the issue, the repetitive
21 grants for when a first grant is still open. We're
22 going to make sure that that first grant has the kind

1 of progress that you all said you want to see for the
2 next meeting, or be closed out before it's awarded.

3 And then, frankly, our TIG staff really does
4 keep focusing on innovations and new ideas and pushing
5 forward, and we haven't been as good as we should have
6 been on closing out the books. So David and the TIG
7 staff have met, and they are going to have regular
8 meetings to assure that both the TIG records and our
9 financial accounts are consistent, and where there is
10 no action on a TIG grant, to close that out to move on.

11 So David's going to have some additional
12 assistance, if you will, in making sure that the TIG
13 grants get closed out on time.

14 MR. RICHARDSON: One last thing, if I can just
15 make sure that everybody understands.

16 On page 34 in the third paragraph, it says,
17 "Since the audit was issued, LSC has worked with
18 grantees to resolve \$389,000 of the outstanding
19 grants." The 900,000 figure that I gave you is what
20 has been -- the increase is what has occurred in the
21 last week. So that's how much focus has been put on it
22 since this original memo was done.

1 CHAIRMAN MADDOX: Thank you.

2 MR. RICHARDSON: Also on that same page, we
3 had an issue with no formal mechanism for granting and
4 revoking logical access to network applications. In
5 the past, what we have done is when a new employee
6 comes in, we would do it -- either the office director
7 who was hiring somebody, or the Office of Human
8 Resources, would let our information technology -- make
9 them aware that we have a new staff coming in.

10 They would set up a network access for them.
11 They would set up the mail system, the e-mail system.
12 And what the auditors want is a little more formalized
13 type of system, which we are going to do.

14 In addition to that, we haven't changed
15 passwords, or hadn't changed passwords, since the
16 network went in place years ago. We've talked about
17 it, but it's one of things that, okay, I've got to
18 change that password again. It involves the network.
19 It involves your program applications. It involves
20 your cell phone and your external, your remote access.
21 And people just didn't want to tackle it.

22 And even we announced that we were going to do

1 it late last year and this spring, everybody said, no.
2 I don't want to do it. So it was delayed a little bit.
3 And then we just said, no. We've got to do it.

4 So on March 4th, all server passwords were
5 changed, and on the 11th, all end user passwords were
6 changed also. So we actually gave them a week, because
7 of people traveling, for people to come in. When they
8 went into the network, they were prompted: give your
9 old e-mail, or your old password, and setup your new
10 one.

11 So we're going to do that on a six-month
12 basis, and hopefully that will resolve the issue that
13 we have, of course, with the internal control with the
14 auditors. And I must say we do a lot of stuff with the
15 thrift savings plan, Social Security Administration.
16 They require you to change your passwords every
17 90 days. And when I mentioned that to a few people,
18 they said, oh, six months sounds good.

19 (Laughter.)

20 MR. JEFFRESS: But in a lot of these, I mean,
21 you to a thrift savings plan, and we have employees who
22 are involved with that. And we've got to go in and

1 post the payments. We've got to certify them. And in
2 90 days, if you just neglect to change your password,
3 you have to get recertified.

4 So this is a good step for us, to go in and do
5 that, and make sure that we are secure, and tighten
6 down our systems. When someone leaves, make sure that
7 we get proper paperwork, get them off the system.
8 Especially within the financial network, we follow it
9 very closely. And when somebody leaves, if they've got
10 access to any financial records, we delete their
11 passwords so that they no longer have access if they
12 would have a remote access availability.

13 CHAIRMAN MADDOX: Sarah?

14 JUDGE SINGLETON: David, if look at page 35 in
15 the board book under Password Policy --

16 MR. RICHARDSON: Yes.

17 JUDGE SINGLETON: -- I appreciate the need to
18 be flexible. But shouldn't you put in some time frame
19 there? Just read it. It says, "change their password
20 every" --

21 MR. LEVI: Every what? It's got a blank.

22 (Laughter.)

1 MR. JEFFRESS: Thank you for pointing that
2 out. It should be six months.

3 MR. RICHARDSON: Thank you. On the next page
4 it does say that. But over-editing.

5 DEAN MINOW: You're checking to see if we're
6 reading these books.

7 (Laughter.)

8 MR. RICHARDSON: The next issue, and the last
9 one --

10 CHAIRMAN MADDOX: I'm sorry, David.

11 Over to Charles.

12 PROFESSOR KECKLER: Yes. I just have a very
13 brief question, which is very much a newbie new board
14 member question, which is, there is sort of a chief
15 information officer, or how is that -- and what role do
16 they have in this particular area, or how does that
17 work?

18 MR. RICHARDSON: We actually do not have a
19 person designated as a chief information officer. We
20 do have a director of information technology, Office of
21 Information Technology. And he does keep current on
22 what's going on in the field and what needs to be

1 accomplished.

2 There are some new requirements coming down
3 the pike dealing with the federal government. We'll
4 review those, and there will be some of those that we
5 will be adopting also.

6 MR. JEFFRESS: And it's he and his staff that
7 developed this policy.

8 MR. RICHARDSON: Yes.

9 MR. FORTUNO: If I may, there's an Office of
10 Information Technology, which handles the hardware and
11 software. There's also an Office of Information
12 Management. And what they do they receive information
13 from the field, and are able to provide that
14 information to management for purposes of use in
15 reports and responding to the Hill and providing data
16 for you.

17 In fact, I think if you look at the monthly
18 updates that I send out on management activities,
19 you'll see that there are reports there on information
20 we've received. Case service reports, PAI, IOLTA
21 funding levels, things of that nature, get reported
22 there.

1 So we have two offices. One is Information
2 Management, and they handle and analyze the information
3 that we received. And then there's OIT, which is
4 more -- the hardware and software folks.

5 PROFESSOR KECKLER: But the security issues
6 are all -- would be all in OIT?

7 MR. FORTUNO: OIT, yes.

8 MR. RICHARDSON: Okay. The last issue is
9 dealing with our data center. And on page 36, you'll
10 see the data center not equipped with effective
11 temperature-controlled equipment.

12 When the auditors came in, unfortunately, it
13 was one of those days -- if you're in our building,
14 you'll see that there is glass around the building.
15 When the sun comes in, it gets hot in the building. As
16 a result, with all the different equipment in our
17 server room, and forgive me if I don't give you the
18 correct number, but at one time it was in excess of 25
19 servers in that room, the temperatures were going about
20 80 degrees, in some cases close to 90 degrees.

21 We had a separate air conditioning unit in
22 there, but it was not functioning properly. We've been

1 monitoring that, and we have now put in a five-ton air
2 conditioning. The temperatures are much more
3 regulated. They're in the high 60s. The information
4 that the auditors had here -- forgive me for saying
5 this, but they say the temperatures should be 40 to
6 60 degrees.

7 I think they were thinking of years ago, when
8 they had the big capacitors in computers, and they've
9 not changed their schematics in their recommendations
10 here. But no one keeps their computer room, at this
11 point, in that range. Our goal is to try to keep it in
12 the 60s. With the new equipment, we will be able to do
13 that.

14 We had the installation of the new
15 high-capacity air conditioner in February, and it is
16 running very efficiently. The room temperature is set,
17 as it says here, at 67, but it's going to fluctuate
18 between 65 and 70 degrees most of the time in that
19 room.

20 DEAN MINOW: Victor?

21 CHAIRMAN MADDOX: Yes, Martha?

22 DEAN MINOW: At the fear of -- I don't want to

1 suggest any micromanagement. But I worry about the
2 connection between this and a green policy. And so is
3 there any use of blinds or other kinds of deflectors of
4 the sun? Because as a manager of a large NGO, I can
5 only say to solve the problem of temperature with air
6 conditioning is not a long-term solution.

7 MR. JEFFRESS: It is not. We are working with
8 the building. We do have blinds that have been in the
9 building when it was built in the mid-'80s, and they've
10 not been replaced or updated. We are working with the
11 building, and that is one of the things that we've
12 asked them to do.

13 So far they've not stepped forward to do it.
14 But we continue the discussions.

15 DEAN MINOW: Every blank.

16 (Laughter.)

17 CHAIRMAN MADDOX: Other comments or
18 discussion?

19 MS. CHILES: Excuse me. This is Jonann
20 Chiles. Can we just briefly go back to TIG?

21 Mr. Richardson, I wasn't fussing at you, and I don't
22 think Sarah Singleton was fussing you, either. It's

1 just, and for your reference, when you go back to look
2 at the issue, the TIG issues that were raised today, on
3 September 10, 2008, Sarah Singleton and I met with
4 Helaine Barnett, Glenn Rawdon, R-a-w-d-o-n, and Bristow
5 Hardin to talk about how TIG grants were administered.
6 And one or both of those gentlemen prepared a
7 memorandum that I can send to you if you'd like.

8 And then also, Senator Grassley sent a letter
9 on January 6, 2009. But he specifically asked about
10 TIG grants. So those documents might be helpful to
11 you.

12 CHAIRMAN MADDOX: Thank you, ma'am. I will
13 see if I can get my hands on those. If not, I'll give
14 you a call.

15 MS. CHILES: Very good. Thank you.

16 CHAIRMAN MADDOX: Chairman Levi?

17 MR. LEVI: On the landlord issue, can we be
18 helpful?

19 MR. RICHARDSON: That I don't know. We are
20 trying to work with the property manager. We have
21 ongoing meetings with him in regards to issues.
22 Hopefully they will --

1 MR. LEVI: Isn't that the Friends of LSC?
2 Isn't thought the landlord?

3 MR. FORTUNO: And in fact, the have a board
4 meeting that's upcoming. And I've spoken with the
5 building manager and been invited to go ahead and join
6 him for their board meeting.

7 MR. LEVI: My assumption is that proper blinds
8 would actually reduce their energy costs, and it might
9 in fact work out to their advantage. Have they not
10 looked into this?

11 JUDGE SINGLETON: Who pay the utility bills?

12 MR. JEFFRESS: Mr. Chairman, Charles Jeffress.
13 We have discussed this with the building manager, as
14 Vic and David indicated. They have a schedule for what
15 they're doing to maintain the building. They will be
16 putting the blinds on probably next year's schedule, is
17 my expectations, not as soon as we would like.

18 In the meantime, we're assessing what blinds
19 are on the north side of the building that don't get
20 used very much that we could move to the south side to
21 alleviate the problem somewhat. I think replacement of
22 the blinds is certainly something that's going to be

1 within their ability to do and we can get done.

2 The longer term issue is we've got a very fine
3 air conditioning system that was very fine for the year
4 it was put in. But it is like 25, 30 years old at this
5 point. Replacing that is a big ticket item, and that's
6 not likely to -- with a more efficient system, that's
7 not likely to be on their agenda for the next year.

8 But at some point for this building, should
9 LSC ever become the owner of it or should friends of
10 LSC continue to operate it, replacing that system's
11 going to be essential.

12 MR. RICHARDSON: As it has been told to me, it
13 was a Mercedes when it was installed, and it's a
14 20-year-old Mercedes now.

15 CHAIRMAN MADDOX: Any other comments?

16 (No response.)

17 CHAIRMAN MADDOX: Well, thank you for that
18 report, Mr. Richardson.

19 The next item on the agenda is the staff
20 report on classification of consultants. Ms. Mattie
21 Cohan, senior assistant general counsel.

22 MS. COHAN: Good afternoon. For the record, I

1 am Mattie Cohan, senior assistant general counsel with
2 the Office of Legal Affairs for the Legal Services
3 Corporation.

4 I know that many of you are now new officially
5 to the board but have been around for a while, so I
6 don't want to take up too much time going into
7 background. So I'm just going to give a very short
8 report, but if you have any questions about how we got
9 to where we are, do feel free to ask me because I don't
10 want to assume too much knowledge on your part. If you
11 want a primer, I'm happy to go back to that.

12 Very briefly, as you know, our auditors asked
13 us a question about the classification of some of our
14 consultants, which we have been hiring on an
15 independent consultant basis, whether they should
16 properly have been classified as workers for IRS tax
17 purposes. We have retained outside counsel on that in
18 accordance with outside counsel's advice and the plan
19 adopted by the board in, well, November of 2009.

20 We have submitted SS-8 forms, which is the
21 form you submit to the IRS to ask them to determine
22 whether you're properly classifying somebody as an

1 independent consultant or as an employee. We have
2 submitted eight SS-8 forms, four of which were
3 for -- they were essentially covering that worker plus
4 a whole bunch of similarly situated workers. And these
5 cover the consultants who are working with OPP and OCE
6 on site visits.

7 We have received from the IRS a formal
8 acknowledgment of four of the eight letters, asking
9 for -- the form letter asks for a bunch of additional
10 information. Well, actually, it asks for information.
11 Consulting with counsel, we believe we've already
12 provided all the information they'd asked for.

13 So our outside counsel has responded to the
14 IRS saying, basically, saying, we acknowledge your
15 acknowledgment and we think we've given you everything
16 you need. If you need anything else, get back to us.
17 And so we remain waiting for the IRS to process the SSA
18 forms and get back to us.

19 DEAN MINOW: The number 8, is that pertaining
20 to 8 people? Or as you say, they represent more
21 people? They're different categories of people?

22 MS. COHAN: There were four that represented

1 individuals who were kind of random consultants that it
2 wasn't clear where they should have been classified.
3 And the other four are -- it was one -- the way you
4 file the form is you file the form for a particular
5 person, and then your attachments note that there are
6 other similarly situated people. And so that's what we
7 did.

8 DEAN MINOW: That's how the IRS works. They
9 like rulings on individual cases.

10 MS. COHAN: Correct.

11 DEAN MINOW: So I'm just trying to figure out,
12 did they respond to four because those were individuals
13 and they haven't responded to the ones that were
14 classification --

15 MS. COHAN: Actually, I think the four that we
16 got back the acknowledgment for were the four with the
17 similarly situated people, although it was clear that
18 the response that they sent us was pretty much a form
19 letter.

20 I do have a quick like e-mail in to our
21 outside counsel saying, do we expect to hear
22 acknowledgments on the other four? Is it just, you

1 know, that the IRS takes their time getting to us? And
2 I haven't heard back from her on that yet. But we're
3 not particularly worried about any of that yet.

4 CHAIRMAN MADDOX: How many consultants in
5 total are we talking about?

6 MS. COHAN: That's a good question, and one
7 that I have -- I knew the answer to, and one which I
8 have forgotten the answer to. It was several hundred,
9 ultimately. For the Office of Compliance and
10 Enforcement, the consultants that do their CSR, CMS,
11 and follow-up visits, and for the Office of Program
12 Performance, the people who do their program quality
13 visits, and the onsite competition visit consultants.

14 There are other consultants who work with the
15 competition process that we felt very -- that we're
16 confident are in fact properly being classified. So it
17 was really these onsite visit consultants that we're
18 looking for. And it was hundreds going back over like
19 ten years. It was not, you know, hundreds for any one
20 year. We went back and provided a response for a
21 number of years.

22 CHAIRMAN MADDOX: So do we have an idea -- I

1 mean, if we determined -- if the IRS determined that
2 these were in fact employees or should be treated as
3 employees, is there going to be financial implications,
4 I assume, for the Corporation?

5 JUDGE SINGLETON: Could I ask that if we are
6 going to discuss this issue, which is in litigation,
7 that we wait until we have a closed -- or not
8 litigation, in administrative process -- that we wait
9 until we have a closed session? Because a lot of this
10 implicates an attorney-client privileged matter.

11 CHAIRMAN MADDUX: Very well.

12 MR. MEITES: But one thing, Vic, that we can
13 do is -- Mattie, can you get for Vic the various
14 presentations we've had before by outside counsel?

15 MS. COHAN: Absolutely.

16 MR. MEITES: And pick the list of the
17 consultants that are involved?

18 CHAIRMAN MADDUX: Yes. That would be very
19 helpful.

20 MS. COHAN: Oh, absolutely.

21 MR. JEFFRESS: This is Charles Jeffress --

22 MR. MEITES: The old board saw all this. But

1 I think, Vic, if you -- this would bring you up to
2 speed pretty quickly.

3 CHAIRMAN MADDOX: Thank you, Tom.

4 MR. JEFFRESS: And this is Charles Jeffress.

5 And the board's publicly adopted budget does have a
6 reserve in it should there be some financial liability
7 for this.

8 CHAIRMAN MADDOX: Excellent.

9 MR. LEVI: You know, although this is probably
10 completely out of order at this point and I can wait
11 for the board meeting but I'll probably forget it by
12 then, but for all of these kinds of holdover pending
13 matters where there are either confidential reports
14 that the old board saw but we have not seen, I think
15 the committee chairs need to be given those documents
16 so that they're up to speed.

17 CHAIRMAN MADDOX: That would be a great
18 suggestion. Thank you.

19 MR. LEVI: If that could be done.

20 DEAN MINOW: That would be very helpful.

21 CHAIRMAN MADDOX: Yes. Any other comments?

22 (No response.)

1 CHAIRMAN MADDOX: Anything else, Mattie?

2 MS. COHAN: No. That's it.

3 CHAIRMAN MADDOX: Thank you very much.

4 The next item on our agenda is the quarterly
5 review of the 403(b) plan performance. And again, over
6 to you, Mr. Jeffress.

7 MR. JEFFRESS: Thank you, Mr. Chairman.

8 Page 38 of the board book is a memo on this subject.

9 At that time, we had reports on the performance of our
10 grantee -- not of our grantees, of our funds in our
11 403(b) plan through February. I now have the report
12 through March, and I'm just going to pass this out.

13 And Tom Meites and Jonann, I apologize. I
14 will e-mail this to you. It is the identical report
15 that you will find on pages 39 and 40 of your board
16 book, but it is updated with one additional month's
17 financial performance.

18 Essentially, at the last audit committee
19 meeting, the audit committee suggested that they'd like
20 a quarterly report on how our funds are performing.

21 That's what we are providing.

22 We've had a very good performance, I would

1 guess, as have many and perhaps most funds in the stock
2 market the last quarter. Almost all of our funds have
3 had better than a 50 percent return rate at this point
4 for this year, and we're very pleased with most of
5 what's here.

6 There are two funds which we continue to
7 watch, the Allianz NFJ Dividend Value fund, which has
8 been performing in the bottom half of the
9 quartile -- of the percentile ranking for firms like it
10 for the past three years, and again for the past three
11 months; if this fund doesn't perform better in the
12 future, in the relatively near future, I believe we may
13 want to seek to change it out as a fund in our plan.

14 The other fund that our provider has suggested
15 that we watch now is a Thornburg Growth fund, and
16 that's because the performance over the last three
17 months has not improved from what it had been earlier.
18 We'd like to see that improve as well.

19 Those two funds we're watching. If we find
20 that they continue to perform at a subpar level, we can
21 switch them out. We may switch them out if the fund
22 recommends it. But even if we decide that -- even if

1 the fund doesn't recommend it, if we decide we don't
2 think it's best mix for our employees, we can choose to
3 add a different fund to this -- to our mix and not
4 offer this any longer.

5 But we will provide this on a quarterly basis
6 to you. And I would say at this point we're generally
7 very happy with the performance of the 403(b) plan, but
8 we do continue to monitor the individual funds in the
9 plan.

10 MR. MEITES: Charles, this is Tom. I have a
11 memory that the last time, or a time, that we reviewed
12 the 403(b) plan, you gave us kind of the mirror image
13 of this as a breakdown of which funds have how
14 much -- what percentage of the total amount in it.

15 Am I imaging that, or did that happen?

16 MR. JEFFRESS: No. No, that's correct. That
17 doesn't change a lot from quarter to quarter. People
18 don't change their holdings amongst funds very much
19 from quarter to quarter. But I can provide that on a
20 quarterly basis if you'd like that as well.

21 MR. MEITES: Yes. Do that because if, you
22 know, there's a fund with one person in it, we might

1 think about just eliminating it so that -- to simplify
2 the choices. And of course, if there are funds which
3 have a substantial amount of participants' money in it,
4 obviously those are the ones that we have to
5 spend -- we have to be sure to focus on.

6 MR. JEFFRESS: We will provide that in the
7 future.

8 CHAIRMAN MADDOX: Charles, do I understand
9 that Morningstar provides you or the Corporation with
10 recommendations regarding what funds to include in the
11 plan and with advice regarding how those funds are
12 performing, and then whether they ought to stay in the
13 plan or be replaced and that sort of thing?

14 MR. JEFFRESS: Morningstar does the ratings of
15 these funds. And I think you'll note at the bottom of
16 these pages there is a note that the ratings come from
17 morningstar. AUL used to contract with Morningstar not
18 only to provide the ratings but to provide advice as to
19 the proper mix.

20 In the last year, they have changed from
21 Morningstar to Mesirow Financial to provide that advice
22 to them, so they're now getting the ratings from one

1 firm and advice as to which fund should be in the mix
2 from a different firm, which is probably a good
3 separation.

4 But we do get that advice from a professional
5 group through AUL to us on a regular basis as to the
6 mix of the funds.

7 CHAIRMAN MADDOX: And then how do you make
8 decisions? Do you make recommendations to the board
9 about which plans actually are included in
10 plan -- which funds are included in the plan?

11 MR. JEFFRESS: No. The board selects the plan
12 administrator, which the board last year selected -- or
13 a little over a year ago selected American United Life,
14 a OneAmerica company, as a plan administrator for this
15 fund. Management then, in cooperation with our plan
16 administrator, can select the mix of funds within the
17 plan. So the board doesn't have to approve individual
18 funds in and out of the plan.

19 CHAIRMAN MADDOX: And who are the trustees of
20 the plan?

21 MR. JEFFRESS: The director of HR is the
22 primary trustee. Alice?

1 MS. DICKERSON: I'm not the trustee. I'm the
2 plan administrator.

3 MR. JEFFRESS: But as a plan fiduciary, she
4 acts as the trustee for the fund. But the board
5 members are not trustees of the fund.

6 MS. DICKERSON: No, no. The board members are
7 not trustees of the funds, no. AUL is the
8 recordkeeper, and they have all of the assets. As
9 Charles has told you, we do have the outside financial
10 advisor. Ibbotson was the original one, and just
11 recently, the first quarter of this year is the first
12 quarter that Mesirow has actually been the advisor.

13 CHAIRMAN MADDOX: I'm sorry. And that's who,
14 again?

15 MS. DICKERSON: Excuse me. Mesirow,
16 M-e-s-i-r-o-w.

17 DEAN MINOW: But the funds themselves are held
18 outside?

19 MS. DICKERSON: The funds themselves, yes.
20 AUL has all of the assets.

21 MR. LEVI: And does somebody -- I assume
22 somebody reviews the balances?

1 MS. DICKERSON: Oh, of course. Yes. Yes, we
2 have online access to that, and we also get reports.
3 Employees get their individual reports. So there's
4 regular reporting on the assets.

5 CHAIRMAN MADDOX: So as far as the board's
6 responsibilities, I mean, we can change the
7 administrator, the outside administrator, AUL, if we
8 wanted to.

9 MS. DICKERSON: Yes.

10 CHAIRMAN MADDOX: We could direct management
11 to make different selections --

12 MS. DICKERSON: You could.

13 CHAIRMAN MADDOX: -- I suppose, if we really
14 wanted to.

15 MS. DICKERSON: That's correct.

16 CHAIRMAN MADDOX: Okay. As a matter of D.C.
17 corporate law, do we have fiduciary duties to the plan
18 or to the Corporation as a board? Does anyone -- have
19 you all --

20 MR. MEITES: Yes. I do know about that.

21 CHAIRMAN MADDOX: Tom, can you tell us?

22 MR. MEITES: Yes. If this were an ERISA plan,

1 because the board has reserved the power to
2 periodically review the funds' performance and to
3 appoint the trustee, we are, at least to some extent,
4 fiduciaries.

5 Since this is a -- we're a not-for-profit,
6 we're not bound by ERISA. But there's no reason to
7 believe that the District of Columbia would not apply
8 the same standard.

9 MS. DICKERSON: Excuse me, Tom. It is an
10 ERISA plan.

11 MR. MEITES: Even though we're a
12 not-for-profit?

13 MS. DICKERSON: Yes. Even though we're --

14 MR. MEITES: Well, okay. Then scratch the
15 last part of the remark. The answer is that a
16 competent plaintiff's lawyer would easily be able to
17 persuade a court that the board members are
18 fiduciaries.

19 DEAN MINOW: Are we covered by directors
20 and --

21 MR. JEFFRESS: Yes, you are.

22 (Laughter.)

1 MR. JEFFRESS: The last part of that was
2 directors and officers liability insurance, for those
3 of you --

4 CHAIRMAN MADDOX: Thank you for completing
5 that thought. All right. Well, that's very helpful.

6 Other comments?

7 (No response.)

8 CHAIRMAN MADDOX: All right. Charles,
9 anything else on that report?

10 MR. JEFFRESS: Not on the performance. We
11 are -- next agenda item, I think we have something.

12 CHAIRMAN MADDOX: Okay. Robert, do you have
13 something? Okay.

14 MR. LEVI: But who -- I did get the -- who
15 is the internal committee, then? Who are the
16 fiduciaries -- I mean, I gather the trustees, rather?

17 MR. JEFFRESS: Well, the director of HR is the
18 principal fiduciary.

19 MS. DICKERSON: Yes.

20 MR. JEFFRESS: We have an account manager that
21 works with --

22 MS. DICKERSON: I'm the plan administrator and

1 plan fiduciary.

2 MR. LEVI: Okay.

3 CHAIRMAN MADDOX: Thank you very much.

4 MS. DICKERSON: Now, one thing we could tell
5 you additional, AUL does share fiduciary responsibility
6 for the plan with us because we use their
7 plan-sponsored advisor.

8 MR. LEVI: Okay.

9 MS. DICKERSON: And we pay an extra \$1500 a
10 year for that service.

11 MR. LEVI: That's what I wanted to know.

12 MS. DICKERSON: And as long as we maintain the
13 funds that are recommended by Mesirov now, AUL will
14 continue to share that fiduciary responsibility.

15 CHAIRMAN MADDOX: All right. That's very
16 helpful.

17 MS. CHILES: I have a --

18 CHAIRMAN MADDOX: Jonann?

19 MS. CHILES: This is Jonann Chiles. I've got
20 a question, and maybe, Tom Meites, you can answer it.

21 Is it customary to have the HR director plan
22 administrator and plan fiduciary?

1 MR. MEITES: Yes.

2 MS. CHILES: Okay. Thank you.

3 MR. MEITES: Often, it is a two- or
4 three-person committee who are the fiduciaries. But
5 some just have one. There's a lot of best practices on
6 this, and which we can research. It would probably be
7 better if there were not just Alice, but there was a
8 three-person committee which was responsibility. But
9 we can leave that to another day.

10 MS. CHILES: Okay. I just -- I kind of
11 worry about Alice being plan fiduciary and plan
12 administrator. It seems like a lot of responsibility.
13 I would be curious to know what the best practice is.

14 MS. DICKERSON: I think it sort of fell to
15 me -- as far as the plan fiduciary, fell to me by
16 default. I've always been plan administrator since the
17 inception of the plan. But AUL is actually the first
18 company we've been with that asked us to specify a plan
19 fiduciary. All of the other companies, we just had to
20 identify a plan administrator.

21 DEAN MINOW: Does it make sense for the audit
22 committee to come back with a recommendation about the

1 creation of a small committee in this regard?

2 CHAIRMAN MADDOX: Of a committee to serve
3 as --

4 DEAN MINOW: As fiduciaries.

5 CHAIRMAN MADDOX: As fiduciaries?

6 DEAN MINOW: To share with Alice.

7 CHAIRMAN MADDOX: Yes. I don't have any
8 objection. Tom or Jonann, do you have any thoughts on
9 that?

10 MS. CHILES: I think that's a very good idea.

11 MR. MEITES: Well, I'm not so sure. I'm not
12 sure that the audit committee should not oversee
13 whoever is the fiduciaries. I would prefer that, oh, I
14 don't know, some other entity, another committee, be
15 directly responsible for the oversight so we could
16 second-guess them.

17 MR. JEFFRESS: The finance committee was the
18 committee that heard the presentations on the change of
19 plan administrators and decided which would be the plan
20 administrator. That's probably the better committee
21 for this oversight.

22 JUDGE SINGLETON: But maybe I misunderstood

1 what the request was. I thought we just wanted a
2 recommendation on whether there should be such a
3 committee, not who ought to do it.

4 DEAN MINOW: That's exactly right. Thank you,
5 Sarah. I was asking -- I think, coming from the audit
6 committee, it's appropriate to have them recommend best
7 practices about whether there should be such a
8 committee.

9 JUDGE SINGLETON: Especially if they change
10 their name to accountability.

11 (Laughter.)

12 CHAIRMAN MADDOX: Unless Tom or Jonann have
13 any objection, we'll put that on the agenda for our
14 next meeting.

15 MS. CHILES: I think that's a good idea.
16 Thank you.

17 MR. MEITES: I agree.

18 CHAIRMAN MADDOX: Anything else?

19 (No response.)

20 CHAIRMAN MADDOX: Thank you very much.

21 MR. FUENTES: Mr. Chairman?

22 CHAIRMAN MADDOX: Yes, Tom, Tom Fuentes?

1 MR. FUENTES: Mr. Chairman, this is not
2 relative to the last matter, nor does it pertain to the
3 next one. But rather, it pertains to a comment by
4 Chairman John before you got into this one, and I meant
5 to jump in. And that was, John, your comment about
6 briefing the new audit chairman about ongoing matters.

7 It just happens that I had an e-mail this
8 morning from Herb Garten, the former audit committee
9 chairman. And we were kibbitzing, and he said, please
10 relate to the new audit chairman that this week, he was
11 spending time in his office going through eight years
12 of files, and through the files of his audit committee,
13 and that there were many items pending that he should
14 like to share with the new chairman.

15 And he asked if we would facilitate. And I
16 don't know whether that's going to be done by you
17 personally or by staff. He'd like to convey his files
18 to you. And then he said that he was going to have a
19 sale next week on three-ring binders.

20 (Laughter.)

21 CHAIRMAN MADDOX: Well, that's very helpful.
22 I'll follow up with staff and with former Chairman

1 Garten.

2 MR. LEVI: Maybe he can donate the proceeds
3 from that sale to buy new blinds.

4 (Laughter.)

5 JUDGE SINGLETON: Or to rent the truck to take
6 his files to Victor.

7 CHAIRMAN MADDOX: All right. Our next item on
8 the agenda is the review of the schedule for the 403(b)
9 plan audit, item number 6.

10 MR. JEFFRESS: Mr. Chairman, as we discussed
11 with the audit committee in January, the Department of
12 Labor issued regulations that requires this year, for
13 the first time, all 403(b) plans to have an annual
14 audit. So Alice and her staff have developed an RFP
15 for an auditor to do an audit of our 403(b) plan.

16 We sent that out to seven audit firms. Five
17 showed up for a conference, for a proposers'
18 conference, where we talked further about what we
19 expected and what we needed. That was held just
20 Wednesday of this week.

21 And you have a schedule in your book on
22 page 41 that gives you the schedule for this audit for

1 the rest of the year. Our hope is that we will be able
2 to conclude this successfully in time to file our
3 Form 5500, which is required July 31st every year.
4 This year it requires to have the audit attached to it.
5 And it's our hope to have the audit completed in time
6 to submit July 31st.

7 If for some reason we aren't able to do that,
8 there is a free, no-cost extension till October. And
9 this is a very tight time schedule, frankly, to get it
10 in. We're not the only ones that are facing this kind
11 of pressure.

12 But we do expect those proposals in the 23rd
13 of April. We promised them that we would make a
14 decision by the 7th of May as to which auditor would do
15 the work, in the hopes that they could then get us
16 their completed audit in July.

17 CHAIRMAN MADDOX: Very well.

18 MR. MEITES: I have a couple questions. If I
19 understand the schedule, you have received expressions
20 of interest?

21 MS. DICKERSON: Yes, we have.

22 MR. JEFFRESS: Yes, we have. We had five

1 firms show up for our bidders conference this week.

2 MR. MEITES: Okay. The only other thing I
3 have is I went online the other day to look at which of
4 our forms are publicly available, and the usual website
5 only has our forms for 2007.

6 Can you provide the audit committee with the
7 submissions for 2008, which should have gone in last
8 summer?

9 MS. DICKERSON: The 5500s, Tom?

10 MR. MEITES: Yes.

11 MS. DICKERSON: Okay. Sure.

12 MR. MEITES: That's all I have.

13 CHAIRMAN MADDOX: Thank you, Tom. Any other
14 comments?

15 MS. DICKERSON: The one thing I might add to
16 that with the timing of the audit is that because our
17 plan has had three different administrators since 1988
18 and to the present, apparently, from what the auditors
19 were telling us when they were in for the conference,
20 they have to establish a beginning balance, and they
21 may have to go back as far as three years, which in our
22 case means they would have to go to some of the other

1 providers.

2 So they explained to us that that part of the
3 process may actually take longer. And so we will not
4 know until they actually get into the process whether
5 they will be able to complete it by our date of July 1.
6 July 31st, as Charles mentioned, is the date we need to
7 be able to submit it with our 5500. But if that
8 doesn't work out, then we can get an extension.

9 MR. GREY: Why is it going to take longer?

10 MS. DICKERSON: They will have to check on
11 assets. Our first provider was Mutual of America. The
12 next provider was Diversified Investment Advisors. And
13 now we have American United Life.

14 We have assets at both Mutual of America and
15 American United Life. The reason for that is because
16 when we transferred the plan, we were not able to
17 transfer the individual assets of the employees because
18 the way the contract was written for the Mutual of
19 America plan, it required the individual consent of
20 employees. Some employees consented, and those assets
21 transferred. There were others who did not, and those
22 assets still remain with Mutual of America.

1 So we do have information-sharing agreements
2 with both Mutual of America and AUL, and so the
3 auditors will be working with both of them. But in the
4 sense that they may have to go back three years for the
5 balance, we only transferred to AUL in 2008.

6 So that would mean they would also then have
7 to go to DIA. DIA does not have any plan assets. They
8 would only have records.

9 MR. MEITES: Alice, you'll keep us up to date
10 on that?

11 MS. DICKERSON: We certainly will.

12 CHAIRMAN MADDOX: Thank you very much. I
13 think that completes item number 6.

14 The next item on the agenda is discussion of
15 schedule for audit committee review of management
16 processes. Is that going to be you, Charles?

17 MR. JEFFRESS: Yes, sir. And I have an
18 outline of my comments that I'm going to circulate.
19 The background on this agenda item is that one of the
20 duties of the audit committee is to review the internal
21 controls of the Corporation, but not only the internal
22 financial controls, also the internal controls that

1 assure that we are properly managing our risks for all
2 of our operations.

3 The Government Accountability Office, the GAO,
4 put out a report noting that, at that time, LSC did not
5 have an audit committee, recommended that we have an
6 audit committee, and recommended that the committee
7 periodically review the processes of the Corporation to
8 assure that we are exercising the proper internal
9 controls to assure that we're operating as we should.

10 That was put into the audit committee charter.
11 And the charter for this committee provides that this
12 committee will periodically review our processes to
13 assure the board that we're operating properly, or to
14 give the board the opportunity to make changes or
15 recommend different things for us to do.

16 So in terms of our internal processes, the
17 last board adopted a strategic directions document, and
18 then adopted a risk management plan that identified
19 what the risks were to our accomplishing the various
20 objectives and completing the strategies that we had
21 identified.

22 That risk management plan obviously laid out

1 the risks that we want to mitigate and the internal
2 processes that we used to mitigate those risks. And
3 that's the document that essentially you could go
4 about, if you chose to as a committee, to identify
5 which internal processes you want to periodically
6 review and monitor and then see how they're performing.

7 This committee and this board will obviously
8 want to adopt a new strategic plan, and that will
9 necessitate a new risk management plan. So I don't
10 know that you want to use the old risk management plan
11 as a basis for determining which processes that you
12 want to review on a regular basis to assure that we're
13 operating as we should.

14 What I have done under number 2 in the outline
15 that's before you is to list what are the major
16 management processes that I think any strategic plan
17 and any risk management plan are likely to involve and
18 that you all are likely to want to assure yourselves
19 are being handled properly.

20 Obviously, the biggest part of our budget is
21 grants that are made to grantees to deliver legal
22 services. Those grant awards and the process by which

1 we make those grant awards assure that they're properly
2 made, assure that they're properly paid, assure they're
3 properly accounted for.

4 That's going to be a major process, and
5 something I would think periodically the audit
6 committee would want to review and be comfortable with
7 the way in which that is done and that we have the
8 proper controls on that process.

9 Secondly, our internal financial controls:
10 Any organization has an accounting system. You've just
11 been over the accounting manual that we recommend to
12 our grantees. We have our own internal financial
13 controls, our own accounting manual, and I would think
14 periodically the audit committee would want to look at
15 our internal financial controls and assure yourselves
16 that they're operating as they should.

17 A third major management process is we collect
18 data from our grantees in terms of the cases they
19 handle, the number of clients they serve, the money
20 they spend, the money they raise. Having that data
21 accurate is obviously very important to our reputation
22 as a Corporation, and it is important to the Congress

1 in deciding how to fund legal services.

2 So assuring that that grantee data is accurate
3 would seem to me to be another major process that,
4 whatever strategic plan you adopt, it's going to be
5 important to what you do.

6 Information technology security, and we've
7 talked about that a little bit already. I think that's
8 an important process for any organization.

9 Oversight of grantee compliance: Again, one
10 of our major responsibilities to assure that the
11 grantees are complying with the regulations, spending
12 the money as appropriate. It would seem to me it would
13 be an important process that you would want to
14 consider.

15 Leadership transitions in any organization is
16 another area for, I would think, an internal process
17 review. We're in the middle of one. Obviously, what
18 we've been through the past few months is important,
19 and since you're in the middle of selecting a search
20 committee and selecting a new president, the leadership
21 transitions are another potential area where you'd want
22 to look at the processes and assure that we are

1 performing adequately.

2 So those are the six major management
3 processes I think the audit committee might want to
4 consider. And obviously, there might be others that
5 you all want to add to this. But those are six that
6 management would recommend that you consider reviewing
7 on some periodic basis as a part of your audit
8 committee's responsibility for reviewing management
9 processes.

10 A suggestion for how you might want to proceed
11 this year: You see under number 3 that, next meeting,
12 you could do grant awards, which again, the biggest
13 part of our money and the most significant financial
14 impact of what we do.

15 In October, internal financial controls would
16 be a proposal for you to review and look at. And by
17 this review, I mean you would hear a presentation from
18 management and give you the opportunity to ask
19 questions and add suggestions or comments on how we do
20 these things.

21 January of next year, perhaps you could do the
22 accuracy of grantee data. The oversight of grantee

1 compliance yesterday in the provisions committee,
2 there's a discussion that the provisions committee has
3 an interest in this overview.

4 The ops and regs committee has for the past
5 year been very focused on grantee oversight as well.
6 So exactly how the audit committee and the other
7 committees want to work together to do this oversight,
8 I'm not sure; that's actually a discussion for you all.

9 But in terms of the audit committee agenda for
10 the rest of the year, a part of your responsibility is
11 to review management processes. The GAO report that's
12 going to come out next month is going to note that
13 while we've promised to do this, the audit committee
14 for the past year has not yet begun it.

15 So I would encourage you as a committee to
16 consider a schedule for yourselves to begin reviewing
17 some of the major management processes.

18 CHAIRMAN MADDUX: Okay. Thank you.

19 Tom or Jonann, do you have any thoughts or
20 comments on the report we've just received or the
21 suggestions for how to proceed in the coming months?

22 MS. CHILES: I'm a little overwhelmed with

1 this task you've assigned us, Charles.

2 MR. JEFFRESS: No, no. It's your charter.

3 It's not me.

4 MS. CHILES: On the strategic
5 directions -- and this is just the first thing that's
6 coming to mind -- on strategic directions, I think it
7 might be a good idea for Chairman Levi and Vice
8 Chairman Minow to look at the strategic directions in
9 place and then put their heads together and think about
10 what type of maybe a special board committee to form to
11 put in place our strategic directions for the next
12 decade.

13 How much time did our strategic directions
14 cover?

15 MR. JEFFRESS: Five years.

16 MS. CHILES: Five years? Five years. It's a
17 big task and it's a significant task. And I don't know
18 that responsibility for that should rest solely with
19 the audit committee. But that's the only thing that
20 comes to mind right now. But your suggestion of a
21 schedule is a good idea.

22 CHAIRMAN MADDOX: That's very helpful, Jonann.

1 I agree with you that the responsibility ought not rest
2 solely with the audit committee.

3 (Laughter.)

4 MR. LEVI: Nor had I thought it did.

5 CHAIRMAN MADDOX: I think there's unanimity.

6 MR. LEVI: Frank Strickland told me that the
7 last strategic directions was planned in a committee of
8 the whole. And it seems to me that since this is a
9 predominately new board and we'll be going through that
10 process, hopefully, with a new head, that that is a
11 good concept as a committee of the whole.

12 But I'm interested in your views on that, but
13 probably not now, in view of the lateness of the hour.

14 CHAIRMAN MADDOX: Right. No, I agree. I
15 think that's a good suggestion.

16 So these are all very helpful. I guess what
17 we'll do is take this under advertisement and come up
18 with a proposal. It does seem that the review of the
19 grant awards would be the first item of business, given
20 the volume of the money involved and the importance of
21 that to the overall mission of the Corporation.

22 And so I would probably suggest to my

1 colleagues on the committee that we adopt that at least
2 as our first item of business as we go forward.

3 MS. CHILES: I agree. I think that's prudent.

4 MR. MEITES: I agree as well.

5 CHAIRMAN MADDOX: Thank you for those reports,
6 Mr. Jeffress. Very helpful.

7 The next item of business is a report from the
8 Inspector General, a briefing from our Inspector
9 General.

10 MR. SCHANZ: For the record, I'm Jeffrey
11 Schanz, the Inspector General of the Legal Services
12 Corporation. Since you will be hearing from me twice
13 more during the course of this afternoon, or at least
14 I'm on the agenda twice, I brought with me my assistant
15 inspector general for audit, who speaks more
16 specifically to audit issues. I am the conductor of
17 the orchestra, so I'm surrounded by very good staff,
18 who have been delegated certain roles.

19 But what I want to do first is welcome the new
20 board. This is my first official presentation to the
21 new board. Congratulations. I am very, very impressed
22 with the questions you ask and the credentials you

1 bring to the task. You'll need them all.

2 What I did want to talk about a little bit is
3 not so much our work, but what the audit committee can
4 anticipate in working with the inspector general. As
5 Mr. Fuentes mentioned, if you want to go through
6 Mr. Garten's library, there will be a lot of
7 information that we've shared with the audit committee
8 as far as work in progress, work intended.

9 I open up to the entire board, but
10 specifically the audit committee, any ideas that you
11 might have for future OIG work. I do believe in -- and
12 I'll say this for the record one more time -- the three
13 Cs of open communication: communication, coordination,
14 and cooperation. That extends to my staff. It extends
15 to the Corporation. And it certainly extends to the
16 board of directors.

17 With that said as background, we'll go into
18 more detail during my IG report. But I did want to
19 introduce Dutch Merryman, who will talk about several
20 of the audit issues that we have ongoing, and
21 particularly with the board, as it comes up to your
22 responsibilities for the annual financial statement

1 audit.

2 MR. MERRYMAN: Thank you very much. My name
3 is Ronald Merryman. I'm the assistant inspector
4 general for audit. I've modified my comments, as the
5 meeting has been progressing, to try to cover some of
6 the areas that you specifically addressed, and there'll
7 be some other areas that, from a process standpoint and
8 from a board responsibility or committee responsibility
9 standpoint, I want to emphasize to you.

10 First of all, I'd like to say that for the TIG
11 grant, we do have an audit in progress, an in-depth
12 review going on of all aspects of the TIG program. And
13 the field work is -- we're in the middle of the field
14 work. We're starting to get to the end of the field
15 work.

16 And we should be on schedule to try to get a
17 draft report out by the end of May. We should get
18 comments back in time. And if all those dates hold,
19 then we should have a report ready by the July meeting
20 that you'll see ahead of time for that.

21 Also, in the area of technology, we are
22 developing statement of work for what's called a

1 financial information management systems audit-like
2 project. It's a requirement annually of government
3 organizations of their technology, of their controls
4 over technology.

5 And so we are looking at leveraging our
6 resources by getting a specialist in that area to look
7 at application controls, which deals how the programs
8 operate, the information, and then we collect
9 information as well as the general controls, which will
10 get into security and other types of things. So we'll
11 be doing that to get that expertise on hand.

12 Also we have future work planned in the
13 contracting area. We have a corporate contracting
14 audit report posted on our website. We will follow up
15 on those recommendations once the actions have been
16 completed by IRS, and we will look at the significant
17 areas.

18 At the last board meeting, we were asked to
19 follow up on the current IPA's other issues and control
20 weaknesses. And we'll schedule time for that also.

21 Currently we have five grantee reports in
22 draft. We've been supporting two ongoing

1 investigations. And we will be issuing draft reports,
2 probably two of them by the end of the month and the
3 other three the following month.

4 We have issued two reports. We posted them to
5 our website on Wednesday. And one of the issues we
6 need to make sure the board is comfortable with is that
7 we will notify the board with a link so that they can
8 click on it, as opposed to a document.

9 Two reasons. One is the documents don't
10 always go because of the size of the document; either
11 it won't go through our screening of e-mail or it won't
12 get through your screening of e-mail. And this causes
13 confusion. The other reason is it saves on paper. But
14 if you prefer to have a hard copy, we can arrange that,
15 too. Just let us know.

16 The two reports are part of our review of the
17 financial controls and controls over compliance. The
18 first one dealt with Northwest Justice. We did
19 have -- overall, the controls were in place. We just
20 had one area that we recommended that they improve the
21 controls on it. That, again, was over contracting.

22 That was one of the issues, a big issue, that

1 came up in one of the GAO reports, and it deals with
2 having levels of approval, having documentation
3 requirements so that when awards or when contracts come
4 up, you know, at a specified dollar amount, that they
5 will be able to follow their process, get competitive
6 bids or document sole source again. Contract fraud is
7 a very large area and a large concern.

8 The other one dealt with Bay Area Legal Aid
9 of Oakland, California. And we also had some need
10 to strengthen controls in that area, again over
11 contracting. Also, an inventory had not been taken
12 in over four years, although the requirement is every
13 two years. They have since conducted the ivy.

14 We also looked at some compliance controls,
15 and one of the things that's required of the grantees
16 is for the executive director to assist the board in
17 preparing their certification of program integrity, is
18 to provide a written report so that the board can rely
19 upon that.

20 It's been given verbally for the last several
21 years, and a written report has now been prepared so
22 that it documents what the executive director told the

1 board in detail in order to complete the certificate of
2 program integrity.

3 In each of the audits, the disbursements we
4 looked at, we looked at over \$2 million worth of
5 disbursements. And we didn't find anything that we
6 felt were not allowed or not properly handled.

7 We looked at the reporting, information
8 reports to the various boards to see what type of
9 information was given, whether budgets were used to
10 follow, and both programs are doing a good job.

11 And we also looked at disbursements over
12 employee -- employee benefits and disbursements to
13 employees outside of payroll. And we had no issues
14 with that.

15 So if it's acceptable to everybody, we'll be
16 sending a link to those reports as soon as I get back
17 on Monday. And in the future, we'll be sending links.
18 If you have any questions about the reports that come
19 out, don't to call me. We'll be glad to discuss them
20 with you.

21 One of the things that the board is
22 responsible for -- I'm changing to the corporate audit

1 now -- the committee is responsible, unless otherwise
2 directed by the board, to oversee the selection and
3 retention of the external auditor.

4 Last year we went through our process of
5 selecting an auditor. We rebid the contract, as we do
6 periodically. And we're coming to the point in time
7 where the work of the current corporate auditor, this
8 cycle is complete. We have two option years on the
9 contract, and we have to make a decision on whether to
10 extend that or not.

11 What your involvement -- what involvement you
12 want to have in that process, how much information you
13 want, who needs to be informed, we'd like to work that
14 out with the chairman and the board members of the
15 audit committee since it's their responsibility, given
16 by the board, to be part of this process.

17 Essentially, the IG is responsible for the
18 selection and oversight of the corporate auditor. We
19 put out the invitation for bid. We evaluate the bids.
20 We make a selection, but we bring that to the audit
21 committee before we finalize the selection.

22 And then while the audit work is going on, we

1 oversee what the work is and we act as an intermediary
2 between management and the auditor to ensure that
3 information is being given in full and the audit goes
4 smoothly. We also review the auditor's work papers,
5 selected work papers, to ensure compliance with
6 government auditing standards. And we do transmit the
7 audit to the board once it is complete.

8 So the audit committee does have
9 responsibilities in that process. So I will be getting
10 with Mr. Richardson and Charles Jeffress to talk about
11 any issues that we have with the current process, the
12 current auditor. And then we will make a decision and
13 have a meeting with the auditors to decide whether
14 we're going to exercise an option year, or we believe
15 it necessary to issue another invitation for proposals.
16 That decision has not been made yet.

17 CHAIRMAN MADDOX: What's the timing on the
18 schedule for that decision?

19 MR. MERRYMAN: We have until July for the
20 option, to exercise the option. However, should we not
21 want to exercise the option for any reason, we need to
22 start almost immediately because of the bidding process

1 and the time it takes to analyze the bids, get the bids
2 in, and get an auditor up and running.

3 I'm making no indication one way or another.
4 We have not had our meetings internally yet. But we'll
5 keep the board informed.

6 CHAIRMAN MADDOX: Robert?

7 MR. GREY: A question. You've got an option
8 to exercise in July. Our next board meeting is in
9 July. Don't you think that having some idea -- who is
10 the auditor, by the way?

11 MR. MERRYMAN: It's Thompson Cobb Bazilio &
12 Associates.

13 MR. GREY: And you don't -- well, let me ask:
14 Do you know by now whether you like them or not?

15 MR. MERRYMAN: We have not made the final
16 decision. But yes, we have an indication already.

17 MR. GREY: And what is it?

18 MR. MERRYMAN: Well, I would not -- without
19 consulting management and their experience on the final
20 parts of the audit, I'd prefer not to do that in open
21 session right now.

22 MR. GREY: Well, it seems to me that if we

1 are -- if you've got to exercise an option in July and
2 you need the input of the board, this would have been a
3 good time to have consulted with the financial folks
4 and to have come up with a suggestion by this time so
5 that we could have made a timely determination about
6 what to do in July. Does that make sense?

7 MR. MERRYMAN: It makes sense, sir, except the
8 one thing is we're not finished getting the information
9 from the auditor for the previous contract. The 990 is
10 still out, has not been signed, as far as I know, which
11 is the tax form, which they are required to prepare.
12 So we're not finished with the audit.

13 I have not held a meeting with management
14 yet to go over any issues they have. We do have
15 indications -- we have preliminary discussions, you
16 know, that when we see each other, are asking about how
17 things are going. But we have not sat down to have
18 that formal one.

19 And what we can do is move that up. Usually,
20 hopefully we'd move it up because the form would not
21 have required an extension.

22 MR. GREY: Okay. Well, thank you.

1 MR. MERRYMAN: And usually, you know -- I'm
2 sorry, I said the board. But we're working with the
3 committee on this part of it.

4 MR. GREY: I understand.

5 MR. MERRYMAN: Okay, sir.

6 CHAIRMAN MADDOX: Martha?

7 DEAN MINOW: I just wonder if the committee
8 should have some schedule for when those meetings will
9 take place, before which time the committee then will
10 need to meet again to make a decision about whether or
11 not to pursue other bids.

12 MR. MERRYMAN: We can set the -- I can get a
13 schedule on the meetings. There should be two
14 meetings, one with management, then one with the
15 auditor. And we can schedule management's meeting, and
16 then as soon as we get that scheduled, then I can
17 contact the audit firm and we can set up the other
18 meeting and get that scheduled with the board.

19 DEAN MINOW: And I want to understand. This
20 is the first round with this auditor?

21 MR. MERRYMAN: Yes, it is.

22 DEAN MINOW: So it is important to do this

1 right and get the full information, but then to act
2 promptly.

3 CHAIRMAN MADDOX: So this is the first audit
4 report you will have received from this auditing firm?

5 MR. MERRYMAN: We've received the report for
6 the financial statement, but they also do the tax
7 return. That has not been signed, as far as I know,
8 right now.

9 CHAIRMAN MADDOX: So is it possible to
10 accelerate the schedule such that --

11 MR. MERRYMAN: There was an extension this
12 year on the 990, what his not unusual. But it seems
13 like it's taken a little longer than normal this time
14 to get that in. But we can accelerate it. We can make
15 the decision at any point in time, you know, whether
16 we're going to retain the auditor or not.

17 CHAIRMAN MADDOX: Right. Well, I think that
18 that's a good idea. If you can get back to us and let
19 us know as a committee when that's going to happen and
20 how we can provide input into that.

21 Do we need to make a decision before the next
22 board meeting?

1 DEAN MINOW: Yes.

2 MR. LEVI: You may. Yes.

3 DEAN MINOW: Yes. So I would suggest again --

4 MR. LEVI: But you're going to be having a
5 meeting, a telephonic meeting.

6 CHAIRMAN MADDOX: I understand. Understood.

7 DEAN MINOW: I would suggest again that you
8 schedule a date certain, by which time you will have
9 had your internal conversations, after which you can
10 schedule your committee meeting, so that by -- it
11 sounds like the end of May would be the latest you
12 would need to put out for bids if you're going to do
13 that.

14 MR. MERRYMAN: Again, this gets back to, you
15 know, shall oversee the selection. It doesn't
16 necessarily say, must approve it.

17 DEAN MINOW: I understand.

18 MR. MERRYMAN: I just want to make sure --

19 DEAN MINOW: I understand. Just input.

20 MR. MERRYMAN: What the board -- what the
21 committee wants to do, we'll do.

22 CHAIRMAN MADDOX: Right. But does it require

1 final board action from the full board?

2 DEAN MINOW: No.

3 MR. LEVI: Apparently not.

4 DEAN MINOW: But the committee. The
5 committee.

6 CHAIRMAN MADDOX: Okay. Understood.

7 MR. LEVI: But I have one other --

8 CHAIRMAN MADDOX: Yes, John?

9 MR. LEVI: To the extent that you're going to
10 put some reports out on a link to the board -- is that
11 my understanding?

12 MR. SCHANZ: Yes. On issued audit reports.

13 MR. LEVI: On issued audit reports. And it
14 seems to me that if board members have questions,
15 rather than their first going directly to you, they
16 ought to actually forward those to Vic because we could
17 be peppering you in 11 different ways, and that just
18 doesn't seem fair to you or to the appropriateness in
19 terms of how the board hears the information.

20 So I think if we have questions, they should
21 go to Vic, and Vic should then act as the person who
22 then schedules either a phone call or briefing from

1 you, whatever, in response to those questions.

2 CHAIRMAN MADDOX: I think that's fine from my
3 perspective. Is that an appropriate procedure from the
4 meeting requirements and that sort of thing? Do we
5 have any concerns about that?

6 MR. LEVI: Well, it's a briefing. Isn't that
7 correct? I mean, individual board members calling
8 the --

9 MR. FORTUNO: To be clear, is there going to
10 be any decision-making by the committee?

11 MR. LEVI: No.

12 DEAN MINOW: No. Just advice.

13 MR. FORTUNO: Then it's a briefing and not
14 subject to sunshine.

15 MR. LEVI: Very well.

16 JUDGE SINGLETON: I just wanted to inquire.
17 When you do your audit on the TIG program, are you
18 going to send everybody that report or just the audit
19 committee?

20 MR. MERRYMAN: When we complete it, we will
21 send it to everybody. Our intent is to keep the board
22 fully informed. And so everybody will receive an

1 e-mail announcement at the same time as to where it's
2 located.

3 MR. SCHANZ: Well, not only that, Sarah, but
4 it'll be a public document. So it'll be open to anyone
5 who wants to go onto our website.

6 MR. MERRYMAN: Once it's final.

7 CHAIRMAN MADDOX: Does that complete your
8 report, Mr. Merryman?

9 MR. MERRYMAN: That completes my report. Yes,
10 sir.

11 CHAIRMAN MADDOX: Thank you. Thank you.

12 MS. CHILES: Excuse me. This is Jonann
13 Chiles. I've got just a quick question for you,
14 Mr. Merryman, Dutch.

15 MR. MERRYMAN: Yes, ma'am.

16 MS. CHILES: The TIG inquiry that the IG is
17 conducting right now, is that in response to the
18 January 2009 request that Mr. Schanz received from
19 Senator Grassley, or is it separate?

20 MR. MERRYMAN: It will satisfy that request.
21 We had planned doing a TIG audit, but before we
22 started, we got the request. So we incorporated the

1 issues raised in that into our audit.

2 MS. CHILES: Okay. Very good. Thank you.

3 MR. SCHANZ: Okay. One other thing. And to
4 quote the chairman, due to the lateness of the hour,
5 just on our website also when the audit committee was
6 formed, the OIG put together an audit committee
7 bibliography, which is currently on our website. And
8 it's more information than you will ever want to read,
9 but it's there. And that will save you having to do
10 any sort of background research.

11 And it's updated as of the end of January, but
12 there's not a lot out there. There are entities out
13 there like Board Source that have lots of information
14 on how to do an audit committee in a nonprofit
15 Corporation. But this, at least, is a baseline that
16 you can build from if you would like to. And we're
17 always entertaining new input to it, whatever else you
18 have.

19 And once again, I want to get back to we serve
20 the board. So any ideas from an audit or programmatic
21 perspective, we entertain. So thank you very much.

22 DEAN MINOW: Thank you.

1 CHAIRMAN MADDOX: Thank you.

2 Any other comments?

3 (No response.)

4 CHAIRMAN MADDOX: Any public comments?

5 (No response.)

6 CHAIRMAN MADDOX: If not, is there any other
7 new business to be considered?

8 (No response.)

9 CHAIRMAN MADDOX: Hearing none, is there a
10 motion to adjourn?

11 M O T I O N

12 MS. CHILES: Move to adjourn.

13 MR. MEITES: Second.

14 CHAIRMAN MADDOX: All in favor?

15 (A chorus of ayes.)

16 CHAIRMAN MADDOX: And the motion is agreed to.

17 (Whereupon, at 12:10 p.m., the audit committee
18 was adjourned.)

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