

LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

MEETING OF THE
AUDIT COMMITTEE

Friday, April 24, 2009

3:40 p.m.

Embassy Suites Hotel
319 Southwest Pine Street
Portland, Oregon

COMMITTEE MEMBERS PRESENT:

Herbert S. Garten, Chairman
Jonann C. Chiles (by telephone)
Thomas R. Meites
Frank B. Strickland, ex officio

OTHER BOARD MEMBERS PRESENT:

David Hall
Bernice Phillips-Jackson (by telephone)

STAFF AND PUBLIC PRESENT:

Helaine M. Barnett, President
Karen M. Dozier, Executive Assistant to the President
Victor M. Fortunato, Vice President for Legal Affairs,
General Counsel, and Corporate Secretary
Mattie Cohan, Senior Assistant General Counsel, Office
of Legal Affairs
David L. Richardson, Treasurer and Comptroller, Office
of Financial and Administrative Services
Karen J. Sarjeant, Vice President for Programs and
Compliance
Charles Jeffress, Chief Administrative Officer
Jeffrey E. Schanz, Inspector General
Joel Gallay, Special Counsel to the Inspector General,
Office of the Inspector General
Thomas Coogan, Assistant Inspector General for
Investigations, Office of the Inspector General
David Maddox, Assistant Inspector General for
Management and Evaluation, Office of the Inspector
General
Mathew C. Glover, Associate Counsel, Office of the
Inspector General
John Constance, Director, Government Relations and
Public Affairs Office
Kathleen Connors, Executive Assistant, Government
Relations and Public Affairs Office
Laurie Mikva, Board of Directors Nominee
Thomas J. Matsuda, Executive Director, Legal Aid
Society of Oregon
Aleta Doerr, Legal Aid Society of Oregon

Don Saunders, National Legal Aid and Defenders
Association (NLADA)
Terry Brooks, American Bar Association (by telephone)
Deborah Perluss, Northwest Justice Project

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P R O C E E D I N G S

(3:40 p.m.)

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3 CHAIRMAN GARTEN: I'm going to call to order the meeting
4 of the audit committee. And Jonann, you're on the phone,
5 are you?

6 MS. CHILES: I am, yes.

7 CHAIRMAN GARTEN: Okay. Good hearing from you and
8 speaking with you. We miss you.

9 The agenda is part of the book, and I refer you to it.
10 And before we do, the minutes of the meeting of October 31
11 of this committee that was in Salt Lake City was not
12 available at our last meeting. We've distributed a draft of
13 the minutes. Of course, you don't have it, Jonann, and
14 perhaps we ought to defer adopting it until the next
15 meeting.

16 MR. MEITES: I agree. I was not present myself.

17 CHAIRMAN GARTEN: So with that advance notice, we will
18 take up passage of the minutes of the October 31, 2008
19 minutes at the next meeting of the audit committee.

20 The first item is the approval of the agenda, which
21 appears on page 70.

M O T I O N

22

1 MR. MEITES: So moved.

2 CHAIRMAN GARTEN: Have a second?

3 MS. CHILES: Second.

4 CHAIRMAN GARTEN: All right. All in favor, aye.

5 (A chorus of ayes.)

6 CHAIRMAN GARTEN: So approved.

7 The next item is the approval of the minutes of the
8 January 31, 2009 meeting, which is in your book beginning on
9 page 71. Have a motion to approve those minutes?

10 M O T I O N

11 MR. MEITES: So moved.

12 MS. CHILES: Second.

13 CHAIRMAN GARTEN: All in favor, aye.

14 (A chorus of ayes.)

15 CHAIRMAN GARTEN: All right. So moved.

16 The next item is a follow-up on the fiscal 2008 audit
17 report references. And in that connection, there were two
18 items that we had requested further discussion and
19 confirmation on, one of them being the security of very
20 substantial monies we have at the Bank of America, and the
21 second was the classification of consultants.

22 And we'll start with a report by David Richardson

1 regarding the security of deposits. And I believe that
2 will be a very short one.

3 MR. RICHARDSON: Yes, sir. We have had a series of
4 meetings with representatives from Bank of America. The law
5 has changed this year in regards to FDIC insurance in that
6 if you're in a non-interest-bearing account, all of your
7 deposits are secured. If you're in an interest-bearing
8 account, or certain interest-bearing accounts, they're
9 insured up to \$250,000. We certainly deposit more than that
10 each month.

11 Because of that, and interest rates have dropped down --
12 we were accruing \$10 a day, you might say, on \$4 million
13 worth of deposits -- we were not earning enough to pay the
14 service charges on the account.

15 What Bank of America has offered us, and we have accepted
16 at this point, is they are paying 1 percent interest on our
17 deposits to defer the service charges on the account. So
18 that is the way that they have basically got around it. We
19 have basically cancelled our sweep account. We no longer
20 have an interest-bearing account at this point. So all of
21 our deposits are secured.

22 CHAIRMAN GARTEN: And not in jeopardy in any way?

1 MR. RICHARDSON: Not in jeopardy at any way.

2 CHAIRMAN GARTEN: We did attempt to get various opinions
3 from counsel, and I would have to say that a lot of them
4 were conditional and inconclusive. But we know for certain,
5 and I've run into this with other clients, that deposits in
6 non-interest-bearing accounts are covered.

7 MR. RICHARDSON: They are covered currently until December
8 31st. But as the banks stated, they felt in this economic
9 situation that that would probably be extended. We'll have
10 to watch out for that toward the end of the year.

11 MR. MEITES: Can you do this? Make a note for whatever
12 board meeting is right before the end of the year to bring
13 this up again, and advise us whether it has been extended?

14 MR. FORTUNO: It's the FDIC's transaction account
15 guarantee program, which is slated to expire at the end of
16 the year, midnight December 31st. The expectation is that
17 it'll be continued. Since we -- especially when you're
18 talking about deposits in the order of \$15 million, that's
19 not something that we can assume will happen. We'll have to
20 ensure that it's going to happen.

21 MR. MEITES: But you'll keep us up to date on --

22 MR. FORTUNO: Yes.

1 CHAIRMAN GARTEN: And you'll have a tickler --

2 MR. FORTUNO: Oh, yes.

3 CHAIRMAN GARTEN: -- that this will be part of the agenda
4 for the meeting immediately preceding the end of the year.

5 MR. FORTUNO: Certainly.

6 MR. RICHARDSON: Will do, sir.

7 CHAIRMAN GARTEN: All right. Jeffrey Schanz is with us.
8 Did you want to comment on any of this, Jeff?

9 MR. SCHANZ: No. I think it's been fully ventilated. But
10 thank you for the opportunity.

11 CHAIRMAN GARTEN: All right. Now, the second item that we
12 requested further discussion on was the classification of
13 consultants. And we left it previously with the fact that
14 we were going to obtain an opinion from an outside law firm.

15 And Vic, will you bring us up to date on the status of
16 that?

17 MR. FORTUNO: Yes. We obtained the pro bono services of
18 Baker Botts, their office down in Dallas. Sent them the
19 relevant materials, that is, essentially a very detailed
20 statement of the circumstances we're asking them to look at
21 and opine on.

22 And we were hoping to have something from them by the time

1 we came here for this meeting, but have not yet received
2 anything back. We should have something shortly, and of
3 course, once it's received, we would be forwarding it to the
4 board.

5 CHAIRMAN GARTEN: All right. Do either of you, Jeff or
6 David, have any comments regarding this?

7 MR. SCHANZ: No, sir.

8 CHAIRMAN GARTEN: All right. So we will await the formal
9 legal opinion.

10 MR. MEITES: And when you get it, Vic, send it to the
11 three of us, if you would --

12 MR. FORTUNO: Oh, yes.

13 MR. MEITES: -- so we can try to make -- I just read an
14 opinion from the D.C. Circuit on this and my head hurts, so
15 I expect the opinion will do the same thing.

16 (Laughter.)

17 MR. FORTUNO: Yes. I can understand why.

18 CHAIRMAN GARTEN: All right.

19 MR. SCHANZ: Mr. Chairman, this is Jeffrey Schanz, the IG.
20 This will surface in the follow-up to the corporate audit
21 because that was the recommendation, as you're aware, of the
22 corporate auditors, to get this issue clarified.

1 CHAIRMAN GARTEN: All right. We hope to get it
2 clarified before then. At least, we're going to try to, and
3 take whatever we see as being necessary.

4 All right. The next item is item 4 on the agenda. This
5 is a report on solicitation for fiscal year 2009, outside
6 auditor. It is the independent CPA that audits the books of
7 the Legal Services Corporation. Jeff?

8 MR. SCHANZ: Yes, sir. We have an RFP, request for
9 proposal, prepared to go out. I do want to share that with
10 the chairman of the audit committee before we send it out,
11 and maybe we can do that at this meeting.

12 CHAIRMAN GARTEN: Certainly.

13 MR. SCHANZ: But the process I've explained before. I can
14 give you the thumbnail sketch, just for the record. There
15 is a legal requirement that the Corporation shall be audited
16 annually. That's in the LSC, Section 1009, subparagraph
17 (a), subparagraph (1). It has to be conducted in accordance
18 with generally accepted auditing standards, and the CPAs
19 must be certified in the jurisdiction in which the audit is
20 undertaken.

21 So far, in order to get this ball moving, we've prepared
22 the request for proposal. We are in the process now of

1 getting ready to publicize the availability. We're
2 looking at Commerce Business Daily, certainly the GSA
3 Schedule, possibly the Washington Post because their
4 advertising fees are so cheap now.

5 And we will evaluate the proposals with an independent
6 board from the audit division of the OIG in consult with the
7 audit committee. This is where we would very much like the
8 audit committee's impact or input into the final selection
9 process. But then once the contract is awarded, we monitor
10 the performance.

11 MR. MEITES: What kind of timetable do you have, do you
12 envision for this?

13 MR. RICHARDSON: We want to get the RFP out by next week.

14 MR. MEITES: And then responses? When do you think you'll
15 have something for us to look at? I suppose that's what my
16 real question is.

17 MR. SCHANZ: I can send you electronically the draft RFP.

18 MR. MEITES: No, no. I'm talking about responses.

19 MR. SCHANZ: Oh, responses? Well, that's for a 30-day
20 turnaround.

21 MR. MEITES: So by June sometime?

22 MR. SCHANZ: By June, we should be ready to award the

1 contract. There is competition, but much like we've heard
2 already today, with the economy's lack of robustness,
3 there's going to be some firms out there that I believe will
4 be bidding.

5 In the past, we've only had one bidder, which has been
6 Nancy Davis. And of course, we're very pleased with her
7 work. But in the interest of independence and transparency,
8 we want to see if we can get another corporate auditor in
9 here.

10 MR. MEITES: Thank you.

11 CHAIRMAN GARTEN: Jonann, do you have any questions?

12 MS. CHILES: No, I do not. Thank you.

13 CHAIRMAN GARTEN: All right. We'll move on to item 5, and
14 that is, is there any public comment?

15 (No response.)

16 CHAIRMAN GARTEN: If not, we'll move on and consider and
17 act on other business. Is there any other business?

18 (No response.)

19 CHAIRMAN GARTEN: Hearing none, I'll ask for a motion to
20 adjourn.

21 M O T I O N

22 MR. MEITES: I move we adjourn.

1 MS. CHILES: Second the motion.

2 CHAIRMAN GARTEN: All right. All in favor?

3 (A chorus of ayes.)

4 CHAIRMAN GARTEN: The meeting is adjourned. And thank you
5 very much.

6 (Whereupon, at 3:51 p.m., the meeting of the audit
7 committee was adjourned.)

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