

1                   LEGAL SERVICES CORPORATION  
2                   BOARD OF DIRECTORS MEETING  
3                   AUDIT COMMITTEE - OPEN SESSION  
4                   October 30, 2009, 2:10 p.m.

5 Attendee(s)

6 HERBERT S. GARTEN, CHAIRMAN

7 TOM MEITES

8 MICHAEL D. MCKAY

9 JEFFREY SCHANZ

10 LINDA E. PERLE

11 RONALD MERRYMAN

12 JONANN CHILES

13 LAURIE TARANTOWICZ

14 VICTOR M. FORTUNO

15 DAVID L. RICHARDSON

16 CHARLES N. JEFFRESS

17 JOEL GALLAY

18 KATHLEEN CONNORS

19 JULIE STRANDLIE

20

21                                   \*\*\*\*\*  
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1           MR. GARTEN: Good afternoon. We  
2 have a list of all people present. The  
3 court reporter has identified it and I'm  
4 pleased to advise that all three members of  
5 the audit committee are present in person  
6 and we are ready to proceed.

7           I'll ask for a motion to approve  
8 the agenda.

9           MR. MEITES: So moved.

10          MS. CHILES: Second.

11          MR. GARTEN: All in favor say I.

12          Moving to number two of the agenda.  
13 Approval of the minutes of the committee's  
14 July 24th, 2009 meeting.

15          MR. MEITES: So moved.

16          MS. CHILES: Second.

17          MR. GARTEN: Minutes have been  
18 approved.

19          Number three, discussion with  
20 outside auditors on fiscal year 2009 audit.

21          PHONE SECRETARY: Excuse me, David  
22 Levine has joined.

23          MR. GARTEN: David, Herb Garten  
24 here. We are in session and we will be  
25 closed within the next few minutes asking

1 you to be part of our closed meeting  
2 session. In the meantime, do you want to  
3 stay on or do you want to call back?

4 MR. LEVINE: We are happy to stay  
5 on and put it on mute for the time being if  
6 that works.

7 MR. GARTEN: Okay. We shouldn't be  
8 long, unless some of these people give me a  
9 little trouble. I don't think they will.

10 We have worked with the I.G.'s  
11 office, first with respect to Dutch and I  
12 working on an invitation to bid for the  
13 services of an independent CPA firm.

14 They worked very expeditiously.  
15 There were some changes that we discussed  
16 subsequent to the time that the invitation  
17 was submitted. There is a model form that  
18 we have developed for future use in  
19 soliciting invitations to bid and I hope  
20 that counsel, the I.G. and our counsel and  
21 treasurer will have a copy of this model  
22 invitation to bid, which could be utilized  
23 in the future subject of course to any  
24 change that might occur as a result of time.

25 After submitting the bids to the

1 I.G.'s office, and I'll ask you to comment  
2 on this, too, or Dutch, the role of the  
3 committee was to act in conjunction with the  
4 I.G. and we have worked together on it, and  
5 we had a meeting in Washington that I  
6 attended in person with further interviews  
7 of the firm that was retained and they are  
8 Thompson, Cobb, Bazilio and Associates.  
9 The principal in charge of audit is a woman  
10 who is a CPA with the name Asma Malik  
11 Doorman.

12           An agreement was entered into with  
13 the firm dated October 1 and as required was  
14 signed and agreed to by the inspector  
15 general, by the president and by me as  
16 chairman of the audit committee.

17           I was impressed with the number of  
18 people that are working on it. Our meeting  
19 in Washington was on September 10th. Elaine  
20 Barnett was present. We had four members of  
21 the firm including principal present. They  
22 went through the timetable of what they were  
23 supposed to do and I think there was general  
24 agreement by both the I.G. and David as to  
25 meeting this timetable and proceeding, which

1 they have done.

2           Jeff, would you like to or Dutch  
3 make any further comments on this?

4           MR. MERRYWEATHER: Just that we've  
5 been monitoring the progress and it's on  
6 track still, although there has been  
7 significant staffing issues with LSC because  
8 of an unfortunate situation, but they are  
9 maintaining their schedule and I've checked  
10 with the auditors and they are pleased with  
11 it and we are still on schedule.

12           MR. GARTEN: I think it's a healthy  
13 decision that was made to retain a new CPA  
14 firm and I'm impressed with the people that  
15 they put in on it and I think that Dutch and  
16 I feel similarly, so unless there is any  
17 further questions or discussions - -

18           MR. MEITES: Herb?

19           MR. GARTEN: Yes, sir.

20           MR. MEITES: Did our former firm  
21 seek to continue? Did they apply?

22           MR. GARTEN: Yes, they did.

23           MR. MEITES: And you all decided  
24 that we would be better off with the new  
25 firm, why is that?

1           MR. MERRYWEATHER: We scored the  
2 applications based on experience and cost to  
3 try to get the overall value and while they  
4 were very close in experience and expertise  
5 in what we are looking for, there is a  
6 significant cost difference that shifted it.

7           MR. MEITES: How long had this  
8 prior firm been our auditor?

9           MR. MERRYWEATHER: Approximately --  
10 I don't remember the exact time because they  
11 were the auditors before we even got here,  
12 but I believe it was six years.

13          MR. MEITES: So if nothing else, we  
14 have a new set of eyes looking at our  
15 workings. I think that's a good thing in  
16 and of itself. I would applaud the  
17 decision.

18          MR. SCHANZ: This is Jeff Schanz,  
19 the inspector general. I agree with that  
20 wholeheartedly. What we have done in some  
21 of our individual grant audits is recommend  
22 that a new I.P.A. to be used on a rotating  
23 basis of about every three to four years, so  
24 you do break away a little bit of the  
25 comfort zone and you start with, as you say,

1 Mr. Meites, a set of new eyes. So we were  
2 very pleased to have eight responses to our  
3 RFP, request for proposal, and we selected  
4 and scored and worked with Herb every step  
5 of the way to get what we feel is the best  
6 bang for the buck for this period of  
7 financial statement audits.

8 MR. GARTEN: Any further comments  
9 or questions? If none, we will move on to  
10 consider on whether to conduct a closed  
11 meeting, and this closed meeting with  
12 counsel awaiting to join us by telephone  
13 conference will deal with the classification  
14 of consultants and the audit of LSC's  
15 consultant contracts.

16 Any comments before we move to go  
17 into closed session? All right, and I would  
18 ask -- thank you very much --

19 MR. MEITES: I will move that we go  
20 into closed session.

21 MS. CHILES: Second.

22 (Whereupon, the closed session started  
23 at 2:30 and Linda Perle removed herself from  
24 the room. The open session recommenced  
25 following the closed session at 3:30.)

1           MR. GARTEN: We are back in open  
2 session and we are back on item six, staff  
3 report of potential amendment to LSC's  
4 403(b) plan.

5           MR. JEFFRESS: This is Charles  
6 Jeffress, chief administrative officer.

7           On the last two pages of the  
8 memorandum which was handed out last night  
9 on the 403(b) plan contain a resolution  
10 which I want to talk about at the moment.  
11 I have extra copies here if anybody would  
12 like a copy of that.

13           In the course of reviewing our  
14 403(b) plan over the last couple of weeks,  
15 counsel, outside counsel brought to our  
16 attention that we have actually two  
17 retirement plans; one that only people who  
18 were contributing to this plan -- people who  
19 are covered by the Federal CSRS retirement  
20 program, because they were in the Federal  
21 system before they joined at LSC.

22           They have a plan that they  
23 contribute to through Mutual of America that  
24 we call the Tax Deferred Annuity Plan.  
25 There is no employer contribution to this



1 because the employer contribution goes to  
2 the CSRS plan that these folks are members  
3 of.

4           So while they have the CSRS plan,  
5 they also have a plan to which they can make  
6 their own individual contributions, which  
7 before was not privy to which is referred to  
8 as the Tax Deferred Annuity Plan. The LSC  
9 has had this for years.

10           The corporation also has a 403(b)  
11 plan which you are familiar and in the past  
12 year we converted from Diversified  
13 Investment Advisors to AUL for the  
14 administration of our 403(b) plan. With the  
15 implementation of new regulations this year  
16 by the internal revenue service, a  
17 corporation is supposed to have a single  
18 403(b) plan.

19           While technically the previous plan  
20 that the CSRS folks contribute to does not  
21 perhaps according to some counsel qualify as  
22 a 403(b) plan because there are no employer  
23 contributions, there's still the potential  
24 that it looks like a 403(b) plan and sounds  
25 like a 403(b) plan.

1           Outside counsel recommended that in  
2 order to avoid the conflict with the new IRS  
3 regulations that the employer have only one  
4 403(b) plan, that we rewrite the 403(b) plan  
5 that we currently have to bring into it as a  
6 subset, if you will, of that plan the tax  
7 deferred annuity plan.

8           So what this resolution requests  
9 your approval for is for us to rewrite our  
10 403(b) plan document to include the existing  
11 tax deferred annuity plan as a subset of our  
12 403(b) plan so it looks like there is one  
13 403(b) plan. It has absolutely no affect  
14 whatsoever on employer contributions or  
15 employee contributions. There is no impact  
16 on anyone's retirement or savings or  
17 anything. It's a paperwork change.

18           MR. GARTEN: So it's a merger  
19 basically?

20           MR. JEFFRESS: I would use the word  
21 merger but some folks are uncomfortable with  
22 the word merger because they will continue  
23 as separate accounts under one umbrella.

24           MR. GARTEN: And this is  
25 recommended by our counsel?

1           MR. JEFFRESS: This was recommended  
2 by outside counsel. We weren't aware of it.  
3 Outside counsel brought it to our attention  
4 because of the IRS rules changes and again,  
5 this is on agenda for the finance committee,  
6 but knowing that the audit committee is  
7 interested in these issues, I wanted to make  
8 sure you were all briefed on what is  
9 happening.

10           MR. MEITES: What does CSRS mean?

11           MR. JEFFRESS: Civil service  
12 retirement system.

13           MR. MEITES: That's a Federal plan?

14           MR. JEFFRESS: Yes.

15           MR. MEITES: Which our employees  
16 were eligible for until some date and  
17 thereafter no longer.

18           MR. JEFFRESS: Prior date, 1988.  
19 So only a few employees still in there.

20           MR. MEITES: You are not asking us  
21 to do anything --

22           MR. JEFFRESS: I'm not asking you  
23 to do anything. I'm just briefing you on it  
24 so when the finance committee considers it  
25 you won't be surprised.

1           MR. MEITES:  If we still are on  
2  403(b), I have something to raise.

3           As the audit committee is charged  
4  with responsibility for overseeing a number  
5  of matters, I think one of the matters they  
6  are charged with overseeing is the  
7  performance of the fiduciary that's been  
8  hired to manage the 403(b) plan, and I think  
9  it's appropriate that at the next meeting  
10 the audit committee at least annually, you  
11 provide us with a report.

12           So can you be sure to do that since  
13 count four of every complaint I write is  
14 failure due to monitor.

15           MR. GARTEN:  Why don't you have  
16 them available for questions.  Thank you for  
17 that excellent suggestion.

18           MR. MEITES:  Those are losing  
19 claims but they are a real pain.

20           MR. RICHARDSON:  If I may, just to  
21 make you aware of it in the budget this year  
22 is a required audit of the retirement plan  
23 and it's something that has come about  
24 because of the new retirement regulations.

25           MR. MEITES:  We don't have an

1 investment committee so we are probably as  
2 close as there is. We are supposed to ask  
3 you, did they cooperate, did they answer  
4 your questions, has anything come to your  
5 mind which raises any red flags with you?  
6 That kind of question.

7 MR. RICHARDSON: Sure.

8 MR. GARTEN: Any other comments or  
9 questions? I think we are ready to go to  
10 public comments.

11 MR. JEFFRESS: Mr. Chairman, before  
12 we do that, the inspector general asked  
13 earlier and I failed to get it on the agenda  
14 for the committee and we will make sure it's  
15 on the agenda in the future, that the  
16 inspector general have a regular I.G.  
17 briefing at this audit committee meeting,  
18 and as you and I discussed, Mr. Chairman, I  
19 think that would be a good idea. It's not  
20 on this agenda but it may be appropriate if  
21 the inspector general has something that he  
22 wishes to add at this time.

23 MR. SCHANZ: I appreciate the  
24 opportunity to do that and I would just like  
25 to be a regular part of our on-the-record

1 communication.

2           That said, for this meeting,  
3 however, I don't have anything to add. We  
4 already talked about the corporate audit and  
5 how well that process worked working with  
6 the audit committee. I don't have any other  
7 issues that are for the audit committee  
8 exclusively. I will have the I.G.'s report  
9 later on in the agenda.

10           MR. GARTEN: Thank you. Public  
11 comment anybody? Hearing none. Are we to  
12 consider and act on any other business?  
13 Hearing none, I'll consider a motion to  
14 adjourn the meeting.

15           MR. MEITES: So moved.

16           MS. CHILES: Second.

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18                   (Whereupon, the meeting  
19 concluded at 3:40 p.m.)

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## 1 REPORTER'S CERTIFICATE

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3 I, TANYA M. CROCE-POTTS, Court Reporter, do  
4 hereby certify that the proceedings were recorded by me  
5 fully and accurately stenographically, reduced to  
6 written form under my personal direction and  
7 supervision; and that this is a true and correct  
8 transcript of same.

9 I further certify that I am neither an  
10 attorney nor counsel of any of the parties in said  
11 proceedings, nor a relative or employee of any attorney  
12 or counsel employed by the parties hereto, nor  
13 financially interested in the outcome of said  
14 proceedings.

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19 TANYA M. CROCE-POTTS

20 Notary Public

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