

LEGAL SERVICES CORPORATION  
BOARD OF DIRECTORS

FINANCE COMMITTEE

OPEN SESSION

Saturday, January 20, 2007

9:05 a.m.

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

COMMITTEE MEMBERS PRESENT:

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

BOARD MEMBERS PRESENT:

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

## STAFF AND PUBLIC PRESENT:

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

## C O N T E N T S

	PAGE
Approval of Agenda	4
Approval of Minutes of Committee Meeting of October 28, 2006	6
Presentation of Fiscal Year 2006 Annual Financial Audit	7
Presentation on LSC's Financial Reports for first two months of Fiscal Year 2007	40
Consider and act on adoption of Revised Temporary Operating Budget for Fiscal Year 2007	56
Act on management's recommendation regarding Fiscal Year 2008 budget request to Congress	68
Staff report on revisions to LSC travel regulations	74
Staff report on progress of comparison of other federal spending practices to LSC	78
Consider and act on adoption of budget guidelines	79
Public comment	83
Consider and act on other business	83
Consider and act on adjournment of meeting	83

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

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

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

## 5 APPROVAL OF AGENDA

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

## 8 M O T I O N

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

18 MR. FUENTES: Move to accept the amendment.

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

20 (No response.)

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

1 The president is trying to get my attention.

2 (Pause.)

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

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

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

20 M O T I O N

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

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

4 MR. FUENTES: Second.

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

6 (Chorus of ayes.)

7 MR. MCKAY: Opposed?

8 (No response.)

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

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

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

18 M O T I O N

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

21 MR. GARTEN: So moved.

22 MR. MCKAY: Second?

1 MR. FUENTES: Second.

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

3 (Chorus of ayes.)

4 MR. MCKAY: Opposed?

5 (No response.)

6 MR. MCKAY: That motion passes.

7 PRESENTATION OF THE FISCAL YEAR 2006

8 ANNUAL FINANCIAL AUDIT

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

22           It also implements certain things, like it

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

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

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

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

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

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

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

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

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

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

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

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

16           MR. WEST: Thank you. Questions?

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

20           MS. DAVIS: Correct.

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

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

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

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

13 MS. DAVIS: Yes.

14 MR. GARTEN: -- the responsibilities?

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

1 group.

2 MR. GARTEN: Okay, and --

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

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

7 MS. DAVIS: Yes?

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

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

15 MR. GARTEN: Okay.

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

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

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

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

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

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

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

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

1 MR. GARTEN: And keeping track.

2 MS. DAVIS: Right.

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

5 MS. DAVIS: Yes, yes.

6 MR. GARTEN: Okay.

7 MR. MCKAY: Any other questions, Herb?

8 MR. GARTEN: That's it.

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

11 (No response.)

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

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

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



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

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

10 MR. MCKAY: Yes, could you?

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

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

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

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

18 MS. DAVIS: Okay.

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

1 MS. DAVIS: This is --

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

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

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

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

12 MR. MCKAY: Okay.

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

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

18 MS. DAVIS: No, not specifically.

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

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

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

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

11            MR. MCKAY: What does that mean?

12            MS. DAVIS: Well --

13            MR. MCKAY: That's accounting talk.

14            MS. DAVIS: It just means --

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

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

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

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

5 MS. DAVIS: No.

6 MR. MCKAY: Okay.

7 MS. DAVIS: No.

8 MR. MCKAY: But --

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

12 MR. MCKAY: Very good.

13 MS. DAVIS: So --

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

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

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

21 MR. STRICKLAND: "Charged with governance."

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

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

3           MS. DAVIS: That's correct.

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

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

12          MS. DAVIS: Correct.

13          MR. STRICKLAND: Starting with you.

14          MS. DAVIS: Correct.

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

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

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

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

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

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

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

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

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

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

21 MR. STRICKLAND: Right.

22 MS. DAVIS: And that is where the dialogue

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

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

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

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

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

7           MR. WEST: That's correct.

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

14          MS. DAVIS: Correct.

15          MR. STRICKLAND: Is that okay?

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

19          MR. STRICKLAND: Right.

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



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

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

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

8           MS. DAVIS: No.

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

11          MS. DAVIS: No.

12          MR. STRICKLAND: Okay.

13          MS. DAVIS: No.

14          MR. STRICKLAND: Thank you.

15          MR. MCKAY: Tom?

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

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

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

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

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

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

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

1 requirements in order to do so.

2 MR. MEITES: Requirements imposed by whom?

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

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

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

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

14 MS. DAVIS: Correct.

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

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

22 The only other audit standards board out

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

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

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

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

15 (Laughter.)

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

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

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

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

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

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

19           MS. DAVIS: Absolutely.

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

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

1 time next year --

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

4 MS. DAVIS: Right.

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

8 MS. DAVIS: Oh, extensive fraud.

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

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

21 MR. MCKAY: Right, yes.

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

1 average not-for-profit is not.

2 MR. MCKAY: Correct, yes.

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

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

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

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

19 MR. MCKAY: Sure do.

20 MR. STRICKLAND: Right. Thank you.

21 MR. MCKAY: Thank you very much.

22 MS. DAVIS: You're very welcome.

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

3           MR. WEST: No, I don't.

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

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

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

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

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



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

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

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

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

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

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

9 We're very diligent in watching our spending.

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

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

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

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

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

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

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

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

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

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

16 MR. RICHARDSON: Yes, I --

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

20 MR. RICHARDSON: Mm-hmm.

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

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

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

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

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

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

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

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

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

22           MR. MCKAY: So, instead of paying

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

4 MR. RICHARDSON: That is --

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

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

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

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

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

20 MR. MCKAY: I'm sorry.

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

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

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

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

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

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

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



1 eliminated some of those positions, also.

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

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

7 MS. PHILLIPS: Do you?

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

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

19 MR. JEFFRESS: Last year, this time.

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

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

2 MS. PHILLIPS: In the GR --

3 MR. JEFFRESS: Government affairs?

4 MS. PHILLIPS: Yes.

5 MR. JEFFRESS: Right. And public relations.

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

10 MS. PHILLIPS: Okay.

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

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

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

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

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

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

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

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

1 our appropriations champion at this point.

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

3 MR. JEFFRESS: I think good advice.

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

7 MR. JEFFRESS: Right.

8 MR. MCKAY: Mr. Jeffress?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

9 MR. JEFFRESS: Okay.

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

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

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

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

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

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

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

8 MR. RICHARDSON: Okay.

9 MR. MCKAY: Please.

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

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

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

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

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

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

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

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

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

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

17 MR. MCKAY: For this fiscal year?

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

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

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

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

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

1 years.

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

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

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

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

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

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

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

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

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

11 MS. PHILLIPS: What positions were those?

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

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

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

1 compliance.

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

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

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

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



1 the book on page 184 is the 2007 reduction.

2 MR. MCKAY: Tom?

3 MR. MEITES: While I support the resolution.

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

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

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

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

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

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

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

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

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

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

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

16 MR. MCKAY: Any other questions or comments?

17 Mr. Garten?

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

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

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

5 MR. GARTEN: Right.

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

8 MR. GARTEN: Exactly.

9 MR. MCKAY: Right.

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

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

17 (No response.)

18 M O T I O N

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

21 MR. GARTEN: I so move.

22 MR. MCKAY: Second?

1 MS. BEVIER: Second.

2 MR. MCKAY: Any other comment?

3 (No response.)

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

5 (Chorus of ayes.)

6 MR. MCKAY: Opposed?

7 (No response.)

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

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

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

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

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

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

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

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

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

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

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

7           MR. MCKAY: \$14.5 million.

8           MR. JEFFRESS: Yes, sir.

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

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

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

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

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

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

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

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

16 MR. JEFFRESS: Yes.

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

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

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

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

8 MR. MCKAY: Thank you very much.

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

11 MR. FUENTES: Mr. Chairman?

12 MR. MCKAY: Tom?

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

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

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

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

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



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

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

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

16 (No response.)

17 M O T I O N

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

20 MR. MEITES: I so move.

21 MR. MCKAY: Second?

22 MS. BEVIER: Second.

1 MR. MCKAY: Any other questions and comments?

2 (No response.)

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

4 (Chorus of ayes.)

5 MR. MCKAY: Opposed?

6 (No response.)

7 MR. MCKAY: Passed unanimously. Thank you.

8 MR. FUENTES: Abstain.

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

15 STAFF REPORT ON REVISIONS TO LSC TRAVEL REGULATIONS

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

18 MR. MCKAY: I'm sorry.

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

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

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

4           MR. MCKAY: Thank you.

5           MS. BEVIER: Is there something in writing?

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

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

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

1 difference.

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

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

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

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

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

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

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

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

22 MR. JEFFRESS: The administrative policies on

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

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

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

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

12 MR. MCKAY: Any other questions or comments?

13 (No response.)

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

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

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

1 with respect to meetings, meals, and entertainment.

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

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

10 (No response.)

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

17 CONSIDER AND ACT ON ADOPTION OF BUDGET GUIDELINES

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

22 I think that the item deserving of attention

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

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

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

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



1 point.

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

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

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

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

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

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

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

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

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

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

6 (No response.)

7 M O T I O N

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

10 MR. FUENTES: Move to approve.

11 MR. MCKAY: Second?

12 MR. MEITES: Second.

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

14 (Chorus of ayes.)

15 MR. MCKAY: Opposed?

16 (No response.)

17 MR. MCKAY: Abstentions?

18 (No response.)

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

22 We have reached the point of the agenda where

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

3 (No response.)

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

6 (No response.)

7 M O T I O N

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

10 MR. FUENTES: So moved.

11 MR. MCKAY: Second?

12 MR. MEITES: Second.

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

14 (Chorus of ayes.)

15 MR. MCKAY: Opposed?

16 (No response.)

17 MR. MCKAY: Abstentions?

18 (No response.)

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

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

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