

LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

MEETING OF THE AUDIT COMMITTEE

OPEN SESSION

Saturday, January 26, 2013

9:19 a.m.

Hyatt French Quarter New Orleans
800 Iberville Street
New Orleans, Louisiana 70113

COMMITTEE MEMBERS PRESENT:

Victor B. Maddox, Chairperson
Harry J.F. Korrell, III
Gloria Valencia-Weber
David Hoffman (Non-Director Member)(by telephone)
Paul L. Snyder (Non-Director Member)(by telephone)

OTHER BOARD MEMBERS PRESENT:

Robert J. Grey Jr.
Laurie Mikva
Martha L. Minow
Father Pius Pietrzyk, O.P.
Julie A. Reiskin

STAFF AND PUBLIC PRESENT:

James J. Sandman, President
Rebecca Fertig, Special Assistant to the President
Victor M. Fortuno, Vice President for Legal Affairs,
General Counsel, and Corporate Secretary
David L. Richardson, Comptroller and Treasurer,
Office of Financial and Administrative Services
Bernie Brady, LSC Travel Coordinator
Jeffrey E. Schanz, Inspector General
Ronald "Dutch" Merryman, Assistant Inspector General
for Audit, Office of the Inspector General
Glenn Rawdon, Program Counsel, Office of Program
Performance
Carol Bergman, Director, Office of Government
Relations and Public Affairs
Carl Rauscher, Director of Media Relations, Office of
Government Relations and Public Affairs
Janet LaBella, Director, Office of Program
Performance
Herbert S. Garten, Non-Director Member, Institutional
Advancement Committee
Frank B. Strickland, Non-Director Member,
Institutional Advancement Committee
Allan J. Tanenbaum, Non-Director Member, Finance
Committee (General Counsel, Equicorp Partners)
Nancy Davis, WithumSmith+Brown (by telephone)

Chuck Greenfield, National Legal Aid and Defender
Association (NLADA)
Terry Brooks, American Bar Association

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1 PROCEEDINGS

2 (9:19 a.m.)

3 CHAIRMAN MADDOX: I will call to order the
4 January 26, 2013 meeting of the Audit Committee of the
5 Legal Services Corporation, and note for the record
6 that we have Gloria Valencia-Weber, Harry Korrell, Paul
7 Snyder attending by telephone, and myself, so that we
8 have a quorum.

9 The first order of business will be approval
10 of the agenda. Is there a motion for that?

11 MOTION

12 MR. KORRELL: Move to approve.

13 CHAIRMAN MADDOX: Second?

14 PROFESSOR VALENCIA-WEBER: Second.

15 CHAIRMAN MADDOX: All in favor?

16 (A chorus of ayes.)

17 CHAIRMAN MADDOX: The motion carries and the
18 agenda is approved.

19 The second item of business --

20 MR. HOFFMAN: Good morning. It's David
21 Hoffman. I just wanted to let you know I've joined.

22 CHAIRMAN MADDOX: Thank you, David, and good

1 morning. So we have the entire Committee present.

2 Item No. 2 is approval off the minutes of the
3 Committee's from September 30, 2012. The minutes are
4 at page 151 in the board book.

5 Is there a motion to approve?

6 M O T I O N

7 MR. SNYDER: So moved.

8 CHAIRMAN MADDOX: Second?

9 MR. KORRELL: Second.

10 CHAIRMAN MADDOX: All in favor?

11 (A chorus of ayes.)

12 CHAIRMAN MADDOX: And the minutes of the
13 September 30 meeting are approved.

14 So item No. 3, and our first substantive item
15 of business, is the presentation of the fiscal year
16 2012 annual financial audit. And we have Dutch
17 Merryman, Assistant Inspector General for Audits, with
18 us here at the panel table, and Nancy Davis from
19 WithumSmith+Brown on the phone. So welcome to both of
20 you.

21 MR. MERRYMAN: Thank you.

22 MS. DAVIS: Thank you.

1 CHAIRMAN MADDUX: Dutch, do you want to take
2 it?

3 MR. MERRYMAN: This is Ronald Merryman,
4 Assistant Inspector General for Legal Services OIG,
5 Assistant Inspector General for Audit. We're here to
6 present the fiscal year 2012 financial statements.
7 Nancy will be giving a short briefing on this. This
8 will be very similar to the exit conference information
9 that was given.

10 I did hear back from a couple members that the
11 phone connection was terrible, and I apologize for
12 that. So if there were any questions that you didn't
13 ask or things that you hear, obviously, for the first
14 time clearly that you want to question, please give us
15 the questions.

16 This year was a lot smoother than last year
17 overall. We came in just about on schedule, about a
18 week and a couple days, partly because of the holidays,
19 partly because of Sandy. We're not giving up this
20 year.

21 We'd like to take a look at it one more time
22 to see if there was anything that reasonably can be

1 done so that if there is a slippage, it doesn't slip
2 through the holiday season. So we'll see if we can not
3 move it up a week or two even more.

4 I'm not saying we can, but we're going to
5 interview both Mr. Richardson's staff and himself and
6 Nancy's staff to see what can possibly be done to see
7 if we cannot get that moved up even further.

8 The main reason for that is that it is very
9 much an inconvenience, trying to get people to be
10 scheduled around those times when obviously there's
11 holidays and other things planned. And to the extent
12 that we can meet the schedule and meet it earlier, we
13 want to take one more shot at that, see if we can move
14 it up. So that's what we plan on.

15 In the interim, I was talking with both
16 parties, starting some time in February, and see if the
17 planning can change just a little bit. We may not be
18 able to, but we're going to ask the questions.

19 With that, Nancy, I'll turn it over to you.

20 MS. DAVIS: Okay. I'm Nancy Davis, a partner
21 with WithumSmith+Brown. Our office is located in
22 Silver Spring, Maryland, and this is the second year

1 that we have been performing the audit for the Legal
2 Services Corporation.

3 This year, we have provided a clean opinion.
4 We've given a clean opinion to the Corporation on their
5 financial statements that the finances and the
6 accounting that is done relative to the Corporation is
7 in good shape. The internal controls appear to be
8 working effectively. Our clean opinion is found on
9 page 1 of the audit report.

10 The second report that we provide is on page
11 16 of the audit report. It's required under government
12 auditing standards, or the Yellow Book. We are
13 required by the Yellow Book to test internal controls
14 and compliance over financial reporting. We do not
15 issue an opinion; it's not that -- doesn't rise to that
16 level. But we do test the internal controls and
17 compliance.

18 This year we did not find any weaknesses that
19 rose to the level of a significant deficiency or a
20 material weakness, as defined under the auditing
21 standards. So, as I indicated, the accounting
22 operation is running smoothly, and the internal

1 controls on the whole seem to be very effective.

2 We did issue a management letter. In this
3 context, it would be deemed "Other items" that we bring
4 to the awareness of the Board. They are not
5 significant deficiencies in that regard.

6 In this case, it related to a check that was
7 not properly voided in the system right at the
8 September 30 cutoff date. It was for 22,280. That's
9 not a material amount. It was subsequently resolved
10 several weeks into the month of October.

11 But we noted it and reported on it simply
12 because any time you have cash involved, that we want
13 to make you all aware that controls related to cash are
14 important. So we wanted to just simply bring that to
15 your attention.

16 As Dutch indicated, I think that the process
17 this year for the audit went much more smoothly. We
18 did work with Dave Richardson to provide him with the
19 list of data and documents that we needed for the
20 purpose of the audit. We had projected dates and
21 timelines that we needed them by.

22 Last year we had significant issues with those

1 dates flipping. This year we did not have that same
2 problem, although there was some. And I think, as
3 Dutch indicated, there were some factors that came into
4 that, such as when Sandy came through and offices were
5 closed for a couple of days.

6 But otherwise, I think that things are much
7 better, and I agree with Dutch that I think that we do
8 need to discuss it further. The report has a way of
9 slipping into the middle of the holidays, which makes
10 it difficult to get it issued timely.

11 The Corporation's budget process has always
12 been quite rigorous. There is a lot of hands-on
13 oversight provided by the Finance Committee. Jim
14 Sandman is a very hands-on manager. And as you all
15 have had your funding levels changed some as
16 appropriations changed, because you have a good budget
17 process in place, then those adjustments have been
18 accounted for.

19 The Corporation had a change of net assets
20 this year of \$942,141. And so the financial position
21 of the Corporation is very sound at the moment.

22 I believe that several of you were on the call

1 when we did the exit conference to go through some of
2 this. And I know some of you also participated in the
3 entrance conference when we did this. So the Audit
4 Committee is very actively involved in the audit
5 process, and I appreciate that.

6 I think that you all, to a certain extent,
7 have stayed abreast of some of the issues as they've
8 come along, so I don't believe anything that I'm
9 reporting to you is new to you. These are things that
10 have been fully disclosed as we've gone through the
11 audit process.

12 So I think, in that context, if there's
13 anything in particular you have a question of from me,
14 that might be the best way to turn this.

15 CHAIRMAN MADDOX: Are there any questions from
16 the board members, or the committee members? Gloria?

17 PROFESSOR VALENCIA-WEBER: Not so much a
18 question as just sort of a clarification of where we
19 are on that voided check reconciliation process. I
20 know that Mr. Richardson had addressed that.

21 CHAIRMAN MADDOX: Right.

22 PROFESSOR VALENCIA-WEBER: Has that all been

1 resolved?

2 CHAIRMAN MADDOX: As I understand it, there
3 were five recommendations.

4 PROFESSOR VALENCIA-WEBER: Yes.

5 CHAIRMAN MADDOX: And those appear in the --

6 PROFESSOR VALENCIA-WEBER: Second page there
7 of the --

8 CHAIRMAN MADDOX: -- second page. And I
9 understand that Management has agreed to implement all
10 of those recommendations.

11 Dutch, is that your understanding?

12 MR. MERRYMAN: That is my understanding. And
13 their comments are included on page -- well, it's 193
14 of the board book -- indicating they will clarify the
15 voided check procedures and conduct and document the
16 process. The particular check has been taken care of.

17 But in the future, there'll be a clarification to the
18 policies and procedures.

19 MS. DAVIS: And next year, when next year's
20 audit is performed, we will go back in and take a look
21 at the corrective action to see that it's effectively
22 been put in place.

1 MR. SNYDER: Vic, maybe if I could -- this is
2 Paul Snyder -- if I could ask a followup question to
3 Gloria, and maybe one to Nancy. Just, are you
4 satisfied with the response, and is there a timetable
5 that's been established for implementing the corrective
6 action?

7 MS. DAVIS: We have not had a discussion with
8 them in terms of the timetable, so I don't know exactly
9 what their plans are. I think that based on Jim
10 Sandman and the way he operates, I believe that these
11 are things that I would anticipate would be put into
12 place quickly.

13 But certainly, as I indicated, when we come
14 back in next year, we will follow up to make sure that
15 it's been completed.

16 MR. SNYDER: And you're satisfied, Nancy, with
17 the response?

18 MS. DAVIS: Yes, I am.

19 MR. SNYDER: Dutch, only as a suggestion --

20 CHAIRMAN MADDOX: Paul, excuse me. Could you
21 speak up just a bit?

22 MR. SNYDER: Is this better?

1 CHAIRMAN MADDUX: It is better.

2 MR. SNYDER: I was just suggesting maybe for
3 the next meeting we just have it on the agenda as a
4 followup, that the corrective action has been
5 implemented.

6 CHAIRMAN MADDUX: That's a good suggestion,
7 Paul. Thank you.

8 Any other questions from the Committee for the
9 auditor or about the report or opinion?

10 MR. HOFFMAN: Vic, it's David Hoffman. I have
11 a question.

12 Hi, Nancy. Thanks for your report. I have a
13 question about the section of the report toward the end
14 that's on year discussion of internal controls as they
15 relate to the financial statements.

16 I understand and see that the main purpose of
17 the audit was in relation to the review of the
18 financial statements themselves. There were a couple
19 of statements on page 16 of your report I just wanted
20 to have you clarify.

21 What I gathered from reading this was that
22 your review of the internal controls over financial

1 reporting was very limited, and as you said here, you
2 were not expressing an opinion on the effectiveness of
3 the internal controls over financial reporting.

4 But then later in the page you said, "We did
5 not identify any deficiencies in internal controls over
6 financial reporting that we consider to be material
7 weaknesses."

8 So I thought it would be helpful for me, as
9 someone who's not an auditor, to have you explain what
10 exactly -- I couldn't tell whether you were saying
11 you're not saying anything at all about the internal
12 controls, or that you were examining the internal
13 controls and you found them sufficient. If you could
14 just help me understand that, that would be great.

15 MS. DAVIS: This is boilerplate language, and
16 sometimes it's not very clear to people. We are
17 required to gain an understanding of the internal
18 controls, identify what are key controls in the
19 financial reporting process, the accounting, the
20 underlying accounting for that financial reporting, and
21 then we are required to test those controls.

22 So we did not test them extensively enough to

1 be able to render an opinion on their effectiveness.
2 But we did test them to the extent that we did not find
3 any controls -- any weaknesses in internal controls
4 that were significant enough that they would rise to
5 the definition of being a significant deficiency, as
6 defined under the standards.

7 Does that answer your question?

8 MR. HOFFMAN: Sort of. Say it one more time
9 because I think that we -- I guess I'm still a little
10 bit confused. When you say, we did not test them
11 enough to determine if they're effective, but we tested
12 them --

13 MS. DAVIS: No. No.

14 MR. HOFFMAN: -- to determine that there's a
15 weakness, I guess --

16 MS. DAVIS: Okay. We did test them enough to
17 determine that they are effective. But we did not test
18 them enough in order to give an opinion on their
19 effectiveness. In other words, it would take a much
20 more extensive level of testing for us to give that
21 kind of assurance. But we tested them enough to be
22 able to say we did not identify any significant

1 deficiencies in controls.

2 MR. HOFFMAN: And just to make sure what
3 you're actually testing, were you familiar with -- I
4 see in the management discussion that's attached to
5 your audit report, Management is describing some of the
6 changes that they implemented in internal controls as a
7 result of the Fiscal Oversight Task Force report.

8 Were those controls that you became familiar
9 with during your audit? And are those included in the
10 controls that you were testing?

11 MS. DAVIS: Yes. When we look at internal
12 controls over financial reporting, we identify various
13 accounting cycles, whether it's cash receipts and
14 disbursements or -- and so what we do is we then -- we
15 gain an understanding of the controls and the process.

16 We identify what are key controls in the
17 process -- for example, whether there is supervisory
18 oversight and review, or reconciliation, or whatever.
19 And then once we've identified those key controls, we
20 design tests for those controls.

21 So whenever there's a change, as reported by
22 Management, then that's been a change in their policies

1 and procedures in how they do business. And yes, we do
2 identify and test those if they rise to the level of a
3 key control. In other words, if there's an issue --

4 MR. HOFFMAN: If there's some -- and I
5 guess -- this is probably going to be my last question.

6 Since the language of these reports tend to be
7 general, as a reader, how do we know what controls you
8 tested and what you did?

9 MS. DAVIS: You don't, based on this report
10 itself. But they are documented in our work papers,
11 which the Inspector General's Office then reviews. If
12 you wanted to have greater understanding, we could
13 provide more specifics to you.

14 MR. HOFFMAN: Well, I guess my thought -- and
15 really ask you, Dutch -- is that I -- and maybe Paul
16 can weigh in. I guess the question is whether it would
17 be beneficial in the future that these reports are a
18 bit more specific.

19 In other words, I can imagine the report
20 telling the reader with more specificity what internal
21 controls you've looked at and what testing you did. I
22 don't think it has to be chapter and verse, but

1 frankly, I think it's hard to tell from reading this
2 one or two pages of boilerplate on internal controls
3 what you actually did.

4 Since that's one of the questions for us, I
5 think it would be helpful for us to learn that. And
6 I'd be satisfied if we did that on a going-forward
7 basis. And maybe I'd defer to Paul and Dutch about
8 whether that's a suggestion that makes any sense.

9 MS. DAVIS: We can certainly provide you with
10 additional information. But it would not be in the
11 context of this report. This report, as you're reading
12 it now, is the required language under the auditing
13 standards that we use. But we certainly can provide
14 additional information on the side.

15 MR. SNYDER: Nancy and Dutch, Paul Snyder. If
16 it makes sense with this, maybe the right time would be
17 when we have the audit planning session. And Nancy,
18 you could talk a little bit more about where are your
19 areas of emphasis and the types of audit procedures
20 you're doing in those areas to test both financial
21 statement items and controls as part of --

22 MS. DAVIS: We'd be very happy to do that,

1 yes.

2 MR. SNYDER: Yes. I think that might make
3 sense. And we see it, then, David, on the front end.

4 I do understand what Nancy is saying, and I
5 would only probably phrase it in context, is that if
6 they had to issue an opinion separately on internal
7 controls, it might cost 50 to 100 percent of what the
8 audit cost because of the additional procedure they
9 have to do.

10 MS. DAVIS: That's right.

11 MR. SNYDER: So they do enough to make sure
12 they get satisfied with the financial statement
13 presentation, but not so much that they'd have to issue
14 a separate opinion, which is kind of what SOX required
15 and doubled everybody's audit fees. If that helps.

16 But I think the audit planning session might
17 be a good session, Vic and David and others, if that
18 makes sense to everyone.

19 MR. MERRYMAN: I think it's also -- this is
20 Dutch Merryman -- to point out that in doing the
21 control work, depending on the design of the control or
22 the application, it could impact the testing, how much

1 testing would have to be done in order to express an
2 opinion.

3 The example I try to use is like an accounts
4 receivable account that has a material impact on the
5 financial statements of donations, let's say. If the
6 controls were not very well established or followed,
7 then there would have to be more testing of the people
8 who are pledging in order to confirm that amount, if it
9 were material to the financial statements.

10 So that's how it's used in the planning
11 process. If there is a deficiency in the design or the
12 application of the significant control, it could impact
13 the amount of testing or the type of testing that has
14 to be done.

15 So while we can give some information at the
16 beginning, I don't know that all the information would
17 be available until after they've done some work on the
18 design and application of the control to determine if
19 they have to do more testing or not.

20 Is that fair, Nancy?

21 MS. DAVIS: Yes. I mean, audits these days
22 are all risk-based in that we assess what are the risks

1 that there could be in the statement, in the financial
2 statements, based on the underlying accounting records
3 and controls.

4 We have an entrance conference at the
5 beginning of the audit with Management and everyone
6 involved. But once we begin to do some of our initial
7 planning work, maybe, Dutch, we could then schedule
8 another conference call, a separate conference call,
9 with the Audit Committee once we've begun that initial
10 phase of planning and have a discussion along this line
11 that would be more specific.

12 CHAIRMAN MADDUX: Nancy, thank you. I think
13 that's a reasonable suggestion. I appreciate, David,
14 your concern for greater specificity and detail. As
15 somebody who in a former life many, many years ago
16 actually had to prepare some work papers in audits, I
17 know that you don't want to get all the detail that you
18 actually have because the tick marks are many and the
19 string can be very long and winding.

20 But it seems like in the entrance conference,
21 and then we have an exit conference as well, that there
22 should be a good opportunity to explore to the extent

1 necessary. And Nancy, you may be able to put together
2 some summary of the internal control checks and testing
3 that is independent of the actual opinion letter that
4 you're required by your standards to issue.

5 MS. DAVIS: And that would be fine. Usually
6 that kind of a discussion is not one we have with
7 management. In other words, if management knows what
8 we're testing, then we find that people make sure that
9 that part of things are going to be fine. So we have
10 to --

11 CHAIRMAN MADDOX: That's something that --

12 MS. DAVIS: That would be --

13 CHAIRMAN MADDOX: Go ahead.

14 MS. DAVIS: In other words, I think it would
15 be a better conversation to have not in the context of
16 the entrance or exit conference simply because those
17 meetings include management.

18 CHAIRMAN MADDOX: Okay. Well, we can discuss
19 that, I think, down the road, David --

20 MS. DAVIS: Sure.

21 CHAIRMAN MADDOX: -- with the OIG. It might
22 be a good topic for our meetings and discussions with

1 the OIG. And I'm sure we can come up with an
2 appropriate approach.

3 Does that sound satisfactory, David?

4 MR. HOFFMAN: Absolutely. Yes. As you can
5 hear, I'm just reacting to -- and this has been my
6 experience from time to time with both supervising
7 audits and issuing audit reports and others, is that
8 sometimes there's a focus on the formality of the
9 opinion process.

10 I certainly understand that based on what's
11 required and what needs to be issued and so on. But,
12 reading this, I don't gain any understanding of what
13 they actually did and what they tested. And I think
14 the importance of that for an oversight committee like
15 ourselves is that even if the testing doesn't allow the
16 auditor to issue an opinion, which is completely
17 understandable, the information for the Audit Committee
18 of what they actually did and what they saw, even if it
19 doesn't rise to the level of an opinion, can be helpful
20 for us.

21 I'd appreciate having that information
22 provided in whatever is the easiest, most convenient

1 fashion at whatever the right time. It would make
2 sense to me it would be toward the end because it's
3 only at that point that they can actually describe what
4 they've seen.

5 I have no thoughts on the right way to do
6 that. I'm just thinking that it would be helpful to
7 get some additional information in summary form
8 because, frankly, these pages, which I think are
9 standard, don't tell me what happened.

10 I'm completely satisfied with just let's push
11 it off to the future. I think that with Dutch and Paul
12 and Nancy and the rest of us, some improvement in that
13 regard can be figured out going forward.

14 CHAIRMAN MADDOX: Okay. Thank you very much.

15 Any other questions on the audit report?

16 (No response.)

17 CHAIRMAN MADDOX: I see David Richardson at
18 the table. I have a table, David, about Management's
19 discussion and analysis. It's in our book. Were you
20 responsible for the Management discussion and analysis?

21 MR. RICHARDSON: Actually, it was a
22 collaborative effort with the Executive Office and

1 Government Affairs. But I may be able to --

2 CHAIRMAN MADDOX: Okay. Well, it's on page
3 191 of the -- it's actually, I think, the last page.
4 And it talks about the Budget Control Act, where you
5 say that the Budget Control Act was scheduled to go
6 into effect January 2nd. And of course, that's been
7 pushed off to March 1st, as I understand it. And it
8 says that if that goes into effect, LSC funding will
9 result in an 8.2 percent cut in appropriations as of
10 the effective date of that Act.

11 Is that a hard number, 8.2 percent, that LSC
12 Management has been told will actually come out of
13 those? Assuming there are no negotiations on how those
14 cuts are changed or modified or whatever, but that's
15 actually -- that's an across-the-board cut?

16 MR. RICHARDSON: Yes, sir. It is. We
17 actually had a meeting earlier this week and went
18 through the financial report with two staff members.
19 And they repeated that information to us at that time.

20 CHAIRMAN MADDOX: The staff members were LSC
21 or from Congress or the White House or --

22 MR. RICHARDSON: From the Hill. From

1 Congress.

2 CHAIRMAN MADDUX: Okay. So is there a
3 contingency plan for how that would affect operations
4 or what that's going to do to the Corporation's --

5 MR. RICHARDSON: Well, certainly we have
6 internally looked at that to see how it may affect
7 future operations. It would not affect this year's
8 operations because we do have the carryover for MGO.
9 It would not affect, I don't believe, the IG's because
10 of the carryover that they have.

11 We have also alerted the field that this is
12 something that we will keep them apprised of. But this
13 could come into effect for them in March.

14 CHAIRMAN MADDUX: So there's no carryover for
15 grantees? Their money is out the door and spent every
16 year. But because we've got a carryover, we wouldn't
17 be having to cut staff or furlough employees or any of
18 that sort of thing?

19 MR. RICHARDSON: That's true at this time,
20 yes, sir. And some of the grantees do have carryover,
21 too. Most of them carry 10 percent or so. Some carry
22 up to 25 percent. But they can carry 10 without any

1 question from us; anything over 10 to 25 percent, they
2 have to present to us a spending plan.

3 But at least we have made them aware that they
4 need to have this in the back of their mind and
5 planning for any type of contingency that may come up.

6 CHAIRMAN MADDOX: Okay. Thank you very much,
7 Dutch and Nancy, if you're still on the line.

8 MS. DAVIS: Yes.

9 CHAIRMAN MADDOX: We appreciate your work and
10 the timeliness, your diligence in addressing all the
11 issues that came up last year, and very much appreciate
12 the good work that your firm has done. So thank you.

13 MS. DAVIS: Thank you.

14 CHAIRMAN MADDOX: Item No. 3 on our agenda is
15 the -- or No. 4, excuse me -- is review of the LSC's
16 Form 990 for the previous fiscal year. And David?

17 MR. SNYDER: Hey, Vic?

18 MR. RICHARDSON: Yes, sir.

19 CHAIRMAN MADDOX: Pardon me. Paul?

20 MR. SNYDER: Yes. Could I just ask a
21 procedural matter here? And bear with me. But in our
22 charter, it says we advise the Board on matters, and

1 one of them is we review and discuss the audit report.

2 So do we as a Committee make a recommendation
3 to the Board to accept the audit report since the audit
4 report is addressed to both the OIG and the Board of
5 Directors?

6 CHAIRMAN MADDOX: Well, that's a good
7 question, Paul. I will make a Chairman's report to the
8 Board at our full board meeting, and that would
9 certainly include report of the proceedings here today.

10 If we need to make a recommendation in light
11 of our charter, I'm going to need to get some advice
12 from either our Legal Office or from the input of the
13 Committee itself because we've not done that in the
14 past.

15 MR. SNYDER: Okay. No, we don't specifically
16 in the charter, Vic, say we recommend. It just says we
17 report to and probably advise the Board on the review.

18 So I didn't know if we in the past have done a
19 process where we recommend. But if you're reporting,
20 if that's the way we've done it, fine. I just wanted
21 to ask that question.

22 CHAIRMAN MADDOX: Yes. We have not in the

1 past, so far as I'm aware, made a formal recommendation
2 that the Board then adopts with some board resolution.

3 Gloria or Harry have any thoughts on that, if we've
4 done anything of that sort?

5 PROFESSOR VALENCIA-WEBER: My memory is the
6 same as yours. And I think we just need to get that
7 clarified.

8 MR. SNYDER: Yes. Because typically, an audit
9 committee would either accept the report or recommend
10 it get accepted. I think under Sarbanes-Oxley, the
11 audit committees now accept them. But it maybe is
12 something just so we have it in the record that we've
13 reviewed it and accepted it. But I'll leave that up to
14 a future meeting once Legal has had a chance to look at
15 it.

16 CHAIRMAN MADDOX: Yes. We'll take that up,
17 Paul. If we need to clarify our procedures, we'll do
18 it. For now, I think the Committee's in agreement
19 unanimously that we have a clean opinion and that the
20 internal controls have been checked, at least, for the
21 purpose of identifying material deficiencies, and that
22 we can report to the Board that we are satisfied with

1 the results of the annual audit.

2 MR. SNYDER: Okay. Thank you.

3 CHAIRMAN MADDOX: Okay. So we'll move to item
4 No. 4, review of the LSC's Form 990 for FY 2012. And
5 I'll recognize the Corporation's comptroller, David
6 Richardson.

7 MR. RICHARDSON: Thank you, sir. Basically,
8 the information that you've just had from the Audit
9 Committee leads right into this information. We take
10 the statements that are prepared, and Nancy and the
11 WithumSmith+Brown folk also prepare the Form 990, and
12 we have a discussion about that.

13 What I have done is to provide an analysis of
14 the information as to how it flows from the financial
15 statement, from the statement of financial position and
16 the statement of activities, and how they relate to the
17 information in the 990.

18 This information, of course, was sent to
19 everybody by email on Wednesday. And I apologize for
20 the lateness of it, but with the audit being completed
21 and the work it has entailed to getting the 990 ready,
22 this was the final audit or the final 941 that was

1 available.

2 On page 6 of the report, it actually asks, "Do
3 you provide this information to your board?" Which we
4 say, "Yes." It also asks what type of review; if it's
5 reviewed, mark "Yes." And we have marked that.

6 Then we describe in the document -- and I said
7 page 6; it's actually page 7. And this is on Section
8 B, Policies; it's 11(a) and 11(b). Then in Schedule O,
9 we describe an abbreviated analysis of what type of
10 review that we conduct.

11 This is truly a collaborative effort because
12 the questions on governance, policies, and disclosures,
13 the checklist of required schedules -- we review this,
14 the Legal Affairs Office reviews it, and so does the
15 President.

16 My office then takes the information from the
17 financial statements. We review it with our trial
18 balance. And what I have done in the three attachments
19 is to relate how the numbers in the 990 relate to the
20 financial statements and trace them through the system.

21 There's three worksheets that track the trial
22 balance by cost center, which also tracks our regular

1 trial balance. And it summarizes the information by
2 budget category, and that information is found on page
3 11.

4 The first attachment, or B, in your
5 information shows how we track the numbers from our
6 trial balance into each number in the statement of
7 functional expenses. It also tracks to the summary on
8 the front page, and also relates to a couple of the
9 other parts. I've tried to identify where each of the
10 numbers come into the reporting within the Form 990.

11 The second takes the Statement of Financial
12 Position -- in my writing here, it's the statement of
13 net assets -- and I've identified which lines from the
14 990 that the information relates, and the schedules.
15 And I've earmarked it within the worksheets so you can
16 easily track or follow it into the statements -- or at
17 least I hope it's easy.

18 I'm used to doing it. It may not be very
19 intuitive to you, but I hope I've laid it out to a
20 point where it is easy enough to follow so that you can
21 trace the numbers through the system.

22 Then, of course, the third worksheet is to

1 identify the Statement of Activities and where each
2 number is also found.

3 There's always a little rounding difference
4 here and there, and I've noted that. But all the
5 numbers, from my financial statements to the audited
6 financial statements to the trial balance to the 990,
7 are in agreement.

8 CHAIRMAN MADDOX: That's the way you like it.

9 MR. RICHARDSON: That's correct.

10 CHAIRMAN MADDOX: Any questions about the 990
11 form?

12 MR. SNYDER: Vic, if I can just ask one quick
13 question of David. The one that surprised me is on
14 page 6 of the form. It's in the policy. It's 15(a),
15 where it asks if there's been any independent review
16 and approval by independent persons, data, et cetera,
17 of the organization's CEO or executive director.

18 That surprised me, that that answer was "No."

19 And I don't know again -- I've not been on the Board.

20 Does the Board approve? Is it approved by someone
21 outside the organization? It surprised me that answer
22 was no.

1 CHAIRMAN MADDOX: I'm sorry. Again, Paul,
2 where was that? Page 6?

3 MR. SNYDER: Page 6 of the actual form.

4 CHAIRMAN MADDOX: Right.

5 MR. SNYDER: And it's under --

6 CHAIRMAN MADDOX: 15(a)?

7 MR. SNYDER: Yes. 15(a). And it asks the
8 question of whether or not the organization's CEO,
9 executive director, or top management
10 official -- whether there's been a process by
11 independent people to review that compensation. And it
12 says, "No."

13 MR. RICHARDSON: If I could address this, the
14 President is with us and may have something to say
15 also. But the contract calls for the President to be
16 paid at the Senior Executive Schedule Level V, and --

17 MR. SNYDER: But again, those numbers are
18 established by somebody outside the organization.
19 Right? I mean, Jim doesn't --

20 CHAIRMAN MADDOX: No. I'm going to let Jim
21 address that, Paul. But the short answer is, no, Jim
22 doesn't decide it.

1 PRESIDENT SANDMAN: This is Jim Sandman. I
2 think the reason for this is that by statute, the
3 maximum salary that the Corporation can pay is capped.
4 And it's capped at Level V of the Senior Executive
5 Service.

6 I am currently paid at the cap. So there is
7 no independent review of that. The Board of Directors,
8 I assume, set that when I was hired. That's what I was
9 told my salary would be. It was not a negotiation.

10 The salaries of the other senior executives
11 within the organization have been capped by action of
12 the Board at a percentage of what the President makes.
13 So there isn't any annual benchmarking or market
14 survey or compensation study done. I believe that the
15 Board of Directors has always operated simply within
16 the light of the cap that Congress has set.

17 MR. SNYDER: Okay. So it's more just that
18 it's been done independently. It's just that it's not
19 using comparable data, et cetera. You're just capped
20 at Level V?

21 PRESIDENT SANDMAN: Yes.

22 MR. SNYDER: Okay. That's fine. It's just

1 when I read "No," that's usually a question you
2 get -- it's always "Yes," and you wonder why it's "No."
3 Okay. That's helpful.

4 CHAIRMAN MADDOX: That's actually an
5 interesting question, Paul and David. When that
6 question refers to "independent persons," is that a
7 reference to the Board, who are independent of
8 Management, I would think?

9 MR. SNYDER: And I think it can be even
10 somebody outside the organization.

11 CHAIRMAN MADDOX: Is it your experience, Paul,
12 that that is typically someone outside the
13 organization, including outside the Board of Directors?

14 MR. SNYDER: No. I think a typical
15 organization would be a comp committee or an
16 independent committee of the board or the board itself.

17 And this one would be -- the right term is
18 quasi-government entity. I guess it's the government
19 that's setting what -- once you determine what the
20 level is, then that's the compensation.

21 But I think at the end of the day, it's still
22 being one independently away from Jim. But it's just

1 the way it is factored, we can't answer that question
2 "Yes" because they're not doing comparability data.

3 I think the other part in there, "Is there a
4 contemporaneous documentation of the process?" And the
5 fact is, I think he's a Level V and so there isn't
6 really any separate market analysis being done.

7 But I think it's okay. It's just that it's
8 just odd that the answer is "No," even though I think
9 there is an adequate process in place.

10 CHAIRMAN MADDOX: Okay. Well, if there's no
11 real concern for that -- actually, the question on the
12 form seems like it could use some editing.

13 MR. SNYDER: Yes.

14 CHAIRMAN MADDOX: It's not actually a
15 well-crafted sentence.

16 MR. SNYDER: No.

17 CHAIRMAN MADDOX: But that's for the IRS, I
18 assume.

19 MR. SNYDER: Yes. All right. Thank you.

20 CHAIRMAN MADDOX: So thank you for that
21 insightful comment and observation, Paul. It was very
22 helpful.

1 David, I don't know if in the future you might
2 want to talk to the IRS and see if maybe we should
3 answer that "Yes."

4 MR. RICHARDSON: Actually, there are
5 instructions. Probably Nancy is looking at them right
6 now. But I will go back and look at the instructions
7 again, and I will talk to WithumSmith next week and
8 seek a clarification -- before it's filed, of course.

9 CHAIRMAN MADDOX: Thank you.

10 Gloria and then Julie.

11 PROFESSOR VALENCIA-WEBER: This is in regard
12 to Mr. Richardson's connecting the many slew of numbers
13 and the many forms in which the numbers go to and the
14 way in which he has tracked them.

15 I do find it helpful and understandable the
16 way you've done it because we get so many numbers and
17 so many forms thrown to us, it's sometimes difficult to
18 say what does this relate to.

19 MR. RICHARDSON: Thank you.

20 CHAIRMAN MADDOX: Julie, did you have a
21 comment?

22 MS. REISKIN: A question. A question about

1 the 990. It said that we only had 11 volunteers, and I
2 assume that you're referring to the Board. But I was
3 wondering -- it was like right on the very first page.

4 And I'm wondering why we're not counting everything we
5 got with DLA Piper and the Fiscal Task Force and all of
6 that.

7 MR. RICHARDSON: Because it goes to voting
8 board members, and there's only 11 that vote in the
9 board meeting.

10 MS. REISKIN: No. Not board members,
11 volunteers.

12 MR. RICHARDSON: Oh, I'm sorry. We have
13 counted the volunteers, the law clerks within the
14 Corporation. We've also counted the voting board
15 members in that. The task force, we did not. That's
16 something we can look at in the future.

17 My experience is when you have a task force
18 like that and you have people working on different
19 committees, that you normally don't count them all as
20 volunteers within the Corporation. But again, we'll
21 look at the definitions and make sure that we're
22 reporting correctly there.

1 CHAIRMAN MADDUX: Okay. Any other questions
2 or comments about Form 990?

3 (No response.)

4 CHAIRMAN MADDUX: If not, if there are no
5 other comments or questions, thank you for your report,
6 David.

7 So now we'll move to item No. 5, which is our
8 briefing by the Office of the Inspector General. And I
9 will recognize Jeffrey Schanz, the Inspector General,
10 and again Ronald "Dutch" Merryman, Assistant Inspector
11 General for Audits.

12 MR. SCHANZ: Thank you, Mr. Chairman. I can
13 make this very easy. I'm available for any questions
14 you have on our activities. I'd prefer to defer this
15 amount of time to the board session, open session of
16 the Board.

17 CHAIRMAN MADDUX: Okay. Are there any
18 questions from David or Paul, since you may not be
19 participating in the full board meeting?

20 MR. HOFFMAN: Vic, I have a question about
21 process. There had been an email sent between this
22 meeting and the last meeting where you had, I think,

1 looked at the charter and made a suggestion about
2 different parts of the charter being handled in
3 different meetings.

4 My impression of that was that part of that
5 was going to include regular reports from the IG to us
6 about different activities. But I couldn't tell from
7 that whether there was a decision that had been made
8 about that.

9 I guess it would be helpful for me to hear
10 your thinking about what we should be expecting, since
11 we did the work on the charter, about what we'll be
12 hearing from the IG about what they're doing in our
13 meetings.

14 CHAIRMAN MADDIX: Well, what I suggested in
15 our email was that we take a look at our charter, and
16 specifically the duties and responsibilities, since the
17 impetus for revising the charter had been that there
18 were duties and responsibilities that we weren't
19 necessarily addressing on an annual basis, or that
20 maybe they weren't either well articulated or well
21 suited to our competence.

22 So we've done that, and now we have a set of

1 duties and responsibilities that we're all comfortable
2 with that are fairly well articulated. And it seemed
3 like it was appropriate to have at least a protocol for
4 the Committee in when and how to address each of those
5 so that we could -- at the end of a fiscal year, at the
6 end of our fourth meeting in the quarter, or in the
7 year, we could say that we had accomplished the goals,
8 or that we deferred it for some reason if we weren't
9 going to accomplish it.

10 So I had identified those things that I
11 thought we ought to do at this meeting. And typically,
12 they involved those duties and responsibilities that
13 addressed the audit -- the report from the auditor, the
14 Inspector General's assessment of the audit, concerns
15 or questions they had, et cetera.

16 I think that I had suggested that there were
17 other items that we could address in April and July and
18 October. So for this meeting, I had suggested that in
19 Section 8 of our charter, under Section A, Audits and
20 Audit-Related Matters, we would effectively accomplish
21 items 1 and 2.

22 Actually, item 1 we would have accomplished in

1 November and December. Item 2, which is review and
2 discuss with the external auditors, the OIG, and
3 Management the audit report, et cetera, I think that we
4 will have effectively accomplished today unless the
5 OIG, the Inspector General, has identified any problems
6 or difficulties or has any concerns about the audit
7 report that he intends to address to the Board itself
8 and not to this Committee.

9 I don't think that's the case. And I
10 understood, Dutch, from your report earlier that there
11 are no such concerns. So I would consider that we've
12 accomplished that.

13 I think the other ones that I thought we would
14 accomplish today are items B(2), B(3), and C(5). So
15 B(2) was to review all issues identified and brought to
16 the Committee's attention by Management, OIG, the GAO,
17 or the external auditor. And I think that we've
18 effectively done that.

19 B(3) is to review any significant deficiencies
20 in internal control over the financial reporting
21 identified by those entities, and we haven't had any
22 identified. So I think we've accomplished that.

1 And C(5) is then to verify and confirm for the
2 Board that there is a proper confidential mechanism in
3 place for making complaints and the like. We haven't
4 done that, but I hope that we could address that in our
5 other business.

6 So, David, then what I had suggested in my
7 email was to go through the other ones. For instance,
8 at April, I'd suggested -- and I don't think anybody
9 had a different suggestion -- but I'd suggested that we
10 would address A(5) and (6) in April.

11 A(5) and (6) would be review and discuss with
12 Management and the Board the response to and, where
13 appropriate, any timely implementation of significant
14 findings and recommendations made by the OIG and the
15 external auditor.

16 So, for instance, in April I assume we would
17 have a report that we've adequately addressed the
18 internal control issue with the voided check, and that
19 those recommendations have been implemented.

20 Item (6) in Subsection A would be to review
21 with Management any internal audit or review
22 activities, including Management's audit or review

1 plan, audit or review reports, and the performance of
2 those portions of Management that perform audits or
3 reviews.

4 Frankly, I'm not entirely sure what that might
5 encompass, but I suspect that Management can give us
6 some insights into that. We'll have it on our agenda
7 in April, and we'll get a satisfactory set of materials
8 so that we can have that review and discussion.

9 Then I've suggested to others for July and
10 October, I don't know if you all have that email with
11 you or not; I can refresh your recollection on that if
12 need be.

13 David, is that kind of consistent with what
14 you're thinking?

15 MR. HOFFMAN: I think, first of all, I
16 appreciated implementation of a schedule that's tied to
17 the charter. I thought that was a really good idea. I
18 think it's important and helpful. And obviously, we
19 have the ability to discuss whether we want to alter
20 that going forward, so it's not something that's set in
21 stone. But I think it's a really good thing to do, to
22 put down.

1 I would encourage you, if you can, or someone
2 that's helping the Board or the Audit Committee
3 to -- maybe we could get it typed up in a more formal
4 way that sets these things out and creates a schedule
5 for ourselves that of course we can change over time.

6 But I think it would be a helpful document not
7 only for the Committee to be aware of but for the IG
8 and Management to be aware of what we're thinking about
9 our schedule.

10 The only sort of tentative comment I have, but
11 I'm not suggesting a change in the schedule because I
12 think it's fair to sort of see where it goes based on
13 what you've laid out -- the only thought that comes to
14 my mind is that given the way the schedule has come
15 out, we will only be hearing from the IG once a year on
16 individual topics, as defined by the charter.

17 For some, that would of course be perfectly
18 appropriate, like the audit, since that's happening
19 once a year. For others, it may be that there's no
20 reason to be waiting till once a year.

21 I would want to hear from the IG more
22 frequently to the extent that there are things to talk

1 about. It could be that pigeonholing a topic for a
2 once-a-year presentation means we don't hear about it,
3 even though significant things are going on.

4 I don't think that, like I said, take that as
5 just a musing and a comment for consideration later as
6 we implement the schedule and start to work on it. So
7 that's my reaction, Vic, and I think that implementing
8 that schedule and passing it around in a typed-up way
9 and following that and then seeing how it feels to us,
10 I think, is an appropriate way to proceed.

11 CHAIRMAN MADDOX: Thank you, David. I agree
12 that there's no reason to necessarily pigeonhole things
13 and be limited to a discussion on any particular
14 schedule.

15 I just think that, given that we have a
16 protocol or a charter now, I think we would all
17 have -- I would like to see that we can say at the end
18 of the year and we can report to the Board that we've
19 satisfied our charter, which actually is one of the
20 things, I think, the Performance and Governance
21 Committee requires us in our evaluations to address, is
22 whether we've adequately done that.

1 So I will see that we do have something more
2 formal, David, put together, and we can either adopt it
3 as a committee protocol or have it on file or maybe
4 post it on our website as part of our governing
5 documents. And I think that we'll have that on the
6 next meeting's agenda so that we can follow that
7 approach.

8 In the meantime, if anyone has other, further
9 thoughts on the schedule that I suggested or whether we
10 want to do things more frequently than I have
11 suggested, that would be something we can include as
12 well.

13 MR. HOFFMAN: And Vic, let me just say one
14 last thing in response, hopefully both for thoughts for
15 the committee and for Jeff and Dutch from the IG's
16 Office, and potential for Management.

17 I think that while it's important, I'm really
18 glad we spent the time we did on the charter and we got
19 that right. And then there'll need to be a schedule
20 and those formal documents that set out what our review
21 entails and when we're going to hear things. Those are
22 important.

1 On the other hand, as we all saw in looking at
2 the Fiscal Task Force review, part of the issue was is
3 enough going on to identify red flags? And then when
4 red flags are being identified, whatever they are, are
5 they being brought to the proper oversight place? And
6 the Audit Committee is one of those important oversight
7 places.

8 So my expectation, regardless of what the
9 schedule says, is that the IG, just as one example -- I
10 think Management as well -- if the IG and Management,
11 through investigations, through audit, through
12 compliance work, are seeing significant red flags on a
13 topic that's within the Audit Committee's charter and
14 topics that we're supposed to be providing oversight
15 for, those will be brought to our attention at the
16 earliest available opportunity, which presumably would
17 be the next meeting, even if it's not within the
18 schedule.

19 I'm happy just saying that. I think people
20 know that. I think that's consistent with everyone's
21 expectations. I just don't want the formality of a
22 schedule that's a once-a-year presentation on a

1 particular topic to be inconsistent with that
2 expectation that when you have red flags, bring them to
3 us.

4 We want to hear them. It will obviously be up
5 to the IG and Management to define what they think is
6 significant enough and when they want to bring it to
7 our attention. But I just wanted to make that point
8 because I don't want to have the formality of the
9 charter and the schedule get in the way of that
10 expectation of reporting to us.

11 CHAIRMAN MADDOX: Well, I appreciate that,
12 David. I don't think that our schedule or whatever
13 sort of protocol we adopt for reviewing our charter on
14 an ongoing basis in any way limits the OIG in how they
15 bring matters to our attention.

16 I think that they're not going to be limited
17 by that, nor would Management be. So I appreciate
18 everything you've said, and I think that the Committee
19 is largely in agreement on that.

20 MR. SNYDER: Vic, my only comment, I guess,
21 is --

22 CHAIRMAN MADDOX: I'm sorry, Paul. Could you

1 speak up?

2 MR. SNYDER: Okay. The only comment I have in
3 addition to David's or reinforcing David's is that,
4 Jeff, I respect his decision to say there's -- when he
5 says he'll move his session to the board meeting and
6 out of the Audit Committee, I'm respecting his judgment
7 to say the report to the Board is not going to include
8 matters that would have been relevant to the Audit
9 Committee that we should be aware of to execute on our
10 charter.

11 So I assume that's why, in essence, he's
12 saying he has nothing to report to us along the lines
13 that David was discussing, if that's a fair assumption
14 to make. Because --

15 MR. SCHANZ: This is Jeff Schanz. That's a
16 correct understanding, Paul. Thank you for
17 articulating it.

18 MR. SNYDER: Okay. I just wanted to be clear
19 because otherwise David and I get into a little
20 disadvantage of trying to keep up. So thank you, Jeff.

21 CHAIRMAN MADDOX: Okay. Well, thank you, Mr.
22 Inspector General.

1 That takes us to item No. 6, which is
2 discussion of our evaluations for 2012 and the
3 Committee's goals for 2013. I don't know how much time
4 you all want to put into this.

5 I reviewed the evaluations and discussions. I
6 thought that they were all helpful. I think that the
7 discussion of goals is largely consistent with the
8 discussion we've just been having, which is having put
9 our charter together, to actually implement it and to
10 turn our attention to working on the substantive charge
11 that the Committee has.

12 I think improved coordination with the OIG is
13 a common goal we all share. And I'm pretty confident
14 that in light of the work we did in getting the charter
15 put together, that we're going to see that both from
16 the Committee and from the IG's Office.

17 As far as greater involvement in the financial
18 reporting process and LSC's internal control structure,
19 I think we've discussed that today. David, your
20 comments certainly suggest that, going forward, we will
21 see greater involvement by the Committee.

22 I have some concern that we might ask more of

1 the auditor than they're prepared to give within the
2 constraints of the budget that we give them. But I
3 think that that is something that will come out in our
4 discussions leading toward the next audit.

5 I think we're well on our way to implementing
6 the new charter. And I think improving internal
7 controls of the grantees is something that we should
8 probably put on our agenda for further discussion
9 because I think that's a bigger topic than we can do
10 with an impromptu discussion today, or at any meeting,
11 frankly.

12 Any other thoughts on that on the Committee?
13 I don't remember if I specifically identified that as a
14 goal. I think I might have because it's a concern I've
15 had in light of what's happened in Baton Rouge and
16 what's happened in Prestonsburg, Kentucky and
17 Baltimore, Maryland and elsewhere. So personally, I
18 think that that's probably one of the most important
19 things that we can do as a committee.

20 MR. HOFFMAN: This is David. I couldn't agree
21 more, Vic. I think it should go on the agenda. And if
22 we look back at why, what the main impetus was for the

1 creation of the Fiscal Oversight Task Force, it's based
2 on the issue you've identified.

3 Therefore, I think it will be critically
4 important for us to keep our eye on that, have
5 discussions on it, keep informed, make sure we continue
6 to be satisfied with the process, and are hearing
7 reports about anything that's coming up in that regard.

8 So I agree that it would be wise to put it on the
9 agenda.

10 MR. SNYDER: Yes. Absolutely.

11 CHAIRMAN MADDOX: Okay. Any other discussion
12 about our Committee evaluation?

13 (No response.)

14 CHAIRMAN MADDOX: If not, we'll move on to
15 item No. 8. I want to go to item No. 8 first because I
16 wanted to address -- in the charter, the whole question
17 of the mechanism for confidential evaluation, or
18 reporting of concerns and whatnot, we've said that we
19 would -- now I've just lost my copy of my charter.
20 There it is.

21 We've said in our charter that we would verify
22 and confirm for the Board that there is a proper

1 confidential mechanism in place for individuals to make
2 complaints anonymously, if desired, and to report
3 suspected fraud, et cetera.

4 I know that in our employee manual, there is a
5 mechanism for doing that, which allows them to report a
6 matter to me as Audit Committee chairman and then gives
7 me authority to decide if there is a matter that needs
8 further attention, whether it's in the jurisdiction of
9 the Committee, et cetera.

10 I think that there's also a separate
11 mechanism. Obviously, there's the hotline for the OIG.

12 And there was some concern about whether there was
13 overlap, whether that was appropriate, whether we
14 needed two separate methods, and the like.

15 I know Jim and I had a conversation, along
16 with John Levi, some months ago about that. And Jim,
17 I'm frankly not sure if anything else happened on that,
18 if there's more that's followed up on that or not.

19 For now, I know that we have a mechanism in
20 place. And whether the Committee wants to address that
21 in the future or not is something I open for the
22 Committee's consideration. I originally, two years

1 ago -- maybe three years ago, when I first took this
2 job -- thought that it would be inappropriate for one
3 person on the Committee to have the authority to say,
4 well, this isn't something we need to look at, and
5 dispose of it without even bringing it to the other
6 committee members' attention, which is I think what the
7 standard in the manual allows me to do.

8 I've kind of said, if anything ever is brought
9 to my attention, I'm going to decide if there's
10 jurisdiction for it. If there is jurisdiction, I'm
11 going to bring it to the Committee's attention. So
12 far, nothing's ever been brought to my attention.

13 So it may be that there's nothing more that
14 needs to be done on this. Jim, if you're satisfied
15 that there is such a mechanism, and if the members of
16 the Committee are satisfied with the mechanism, then
17 I'm prepared to leave it as it is.

18 PRESIDENT SANDMAN: I'm satisfied with the
19 mechanism that we have currently. But I think we can
20 make some improvements to try to integrate all of the
21 different whistleblower policies and outlets that are
22 currently available within the Corporation. And we're

1 working on that currently.

2 CHAIRMAN MADDOX: Okay. Well, maybe we can
3 get a report on that at an upcoming meeting, maybe
4 April, if it's ready for then. If not, July, I think,
5 would be acceptable as well.

6 Other than that, there are no other issues
7 that I thought needed to be addressed on our charter
8 today. Is there any other business that we need to
9 consider or act on?

10 (No response.)

11 CHAIRMAN MADDOX: If not, then I'll go to
12 public comment, item No. 7. Is there any public
13 comment?

14 MR. HOFFMAN: Vic? Vic?

15 CHAIRMAN MADDOX: I'm sorry. David?

16 MR. HOFFMAN: This is David. Sorry, I want to
17 go back to the confidential reporting thing. I hear
18 you that the thing that Jim just raised about the
19 perhaps change or coordination of whistleblower
20 provisions may come up at a future meeting. Let me
21 just give you a reaction on the dual reporting
22 mechanism you laid out, of people being able to report

1 to the IG and Audit Committee chair.

2 I think that makes a lot of sense. You would
3 think that it may be that the first thing that people
4 will think about is reporting to the IG instead of the
5 Audit Committee chair.

6 Reporting would be really left for those what
7 I would presume to be very rare situations where they
8 feel like I just don't want to go to the IG. There's
9 something that doesn't make me feel right about that.
10 And it may be that your receiving zero provides a
11 comfort level about people's comfort with going to the
12 IG.

13 One question that always arises in these
14 things is, do employees really know about them? And I
15 would appreciate it, Jim, if you could email or have
16 someone email the relevant page or provision in the
17 employee manual that says, here's what you can do if
18 you want to report. You can report to the Audit
19 Committee chair; here's the specifics of how you do
20 that. You can report to the IG; here's the specifics
21 of how you do that.

22 Sometimes in investigations you hear an

1 employee say, "Oh, I didn't know I had that option. I
2 didn't know I could do that." And so I think we want
3 to make sure we're examining, even if only briefly, how
4 people know about it so that that claim can't be made
5 later. And I'd be satisfied just receiving an email
6 with that page or pages.

7 Vic, let me just give you a reaction on the
8 point about what you should do with it. I think it's
9 completely appropriate to leave it to the discretion of
10 the Audit Committee chair about whether it should be
11 shared with the Committee. I think your practice makes
12 sense, is wise, that if you think there's jurisdiction,
13 to share it with everybody.

14 But I think it's appropriate that the
15 procedure is basically, leave it to the discretion of
16 the Audit Committee chair, and then you can do with it
17 what you want.

18 So I think it's the first time we've discussed
19 this, and since we're going to discuss it again and I
20 or we will have a chance to review this employee
21 manual, I don't think there's anything further that
22 needs to happen today. But I wanted to give you my

1 reactions today on it.

2 CHAIRMAN MADDOX: Thank you, David, very much.

3 Jim, I assume you'll just share that email
4 with the whole Committee?

5 PRESIDENT SANDMAN: Of course. Be happy to do
6 that.

7 CHAIRMAN MADDOX: Thank you.

8 All right. Is there any public comment?

9 (No response.)

10 CHAIRMAN MADDOX: Seeing none, I take it that
11 the meeting was as scintillating as it must have
12 seemed. And so, if not, I'll consider and act on a
13 motion to adjourn.

14 M O T I O N

15 PROFESSOR VALENCIA-WEBER: So move.

16 CHAIRMAN MADDOX: Second?

17 MR. KORRELL: Second.

18 CHAIRMAN MADDOX: All in favor?

19 (A chorus of ayes.)

20 CHAIRMAN MADDOX: And the motion is agreed to,
21 and the Committee stands in adjournment. Thank you all
22 very much.

1 (Whereupon, at 10:25 a.m., the Committee was
2 adjourned.)

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