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LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

MEETING OF THE
FINANCE COMMITTEE

Saturday, July 28, 2007
11:40 a.m.

Sheraton Nashville Downtown Hotel
623 Union Street
Nashville, Tennessee

COMMITTEE MEMBERS PRESENT:

- Michael McKay, Chairman
- Lillian R. BeVier
- Thomas A. Fuentes (by telephone)
- Herbert S. Garten
- Thomas R. Meites
- Sarah M. Singleton
- Frank Strickland, ex officio

BOARD MEMBERS PRESENT:

- David Hall
- Jonann C. Chiles
- Bernice Phillips

Diversified Reporting Services, Inc.
(202) 467-9200

1 STAFF PRESENT:

2 Helaine M. Barnett, President and ex officio
3 Patricia Batie, Manager of Board Operations and
4 FOIA Officer

5 David L. Richardson, Treasurer and Comptroller
6 Victor M. Fortuno, Vice President for Legal Affairs,
7 General Counsel, and Corporate Secretary

8 Karen Sarjeant, Vice President for Programs and
9 Compliance

10 Mattie Cohan, Senior Assistant General Counsel
11 Charles Jeffress, Chief Administrative Officer

12 Richard (Kirt) West, Inspector General
13 Laurie Tarantowicz, Assistant Inspector General and
14 Legal Counsel

15 Thomas Coogan, Assistant Inspector General for
16 Investigations, Office of the Inspector General

17 Ronald (Dutch) Merryman, Assistant Inspector General
18 for Audits, Office of Inspector General

19 Matthew Glover, Assistant Counsel to the Inspector
20 General

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

Kathleen Connors, Executive Assistant, Office of
Government Relations and Public Affairs

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

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

David R. Yoder, Executive Director, Legal Aid of East
Tennessee

Debra L. House, Legal Aid of East Tennessee

Chuck Greenfield, Legal Aid Society of Hawaii

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

2 (11:40 a.m.)

3 CHAIRMAN McKAY: Let's go ahead and call to
4 order the Finance Committee meeting.5 And the first item on the agenda is approval
6 of the agenda. I would initiate the conversations by
7 asking that we change the date to 2007. Are there any
8 other proposed changes to the agenda?

9 M O T I O N

10 MS. SINGLETON: Mr. Chair, this is Sarah
11 Singleton. And I move that we adopt the agenda as
12 modified.

13 CHAIRMAN McKAY: Do I have a second?

14 MR. GARTEN: Second.

15 CHAIRMAN McKAY: All those in favor?

16 (A chorus of ayes.)

17 CHAIRMAN McKAY: Opposed?

18 (No response.)

19 CHAIRMAN McKAY: The motion passes.

20 First, I'd like to remind all the members of
21 the committee, everyone here, to speak into the
22 microphone. I want to confirm who's on the line. I

1 know Tom Fuentes is on the line. Is there anyone else
2 on the telephone?

3 (No response.)

4 CHAIRMAN McKAY: Thank you.

5 The second item of the agenda is approval of
6 the minutes of our meeting of April 28, 2007.

7 M O T I O N

8 MS. SINGLETON: Mr. Chair, I move we approve
9 the minutes as submitted.

10 CHAIRMAN McKAY: Do I hear a second?

11 MR. FUENTES: Second.

12 CHAIRMAN McKAY: Give me just a moment,
13 please.

14 (Pause)

15 CHAIRMAN McKAY: I'd like to propose a change
16 to page 113, the last paragraph, third line, the topic
17 related to the subject of Mr. Richardson providing
18 information to the committee.

19 And I would like to ask that the minutes be
20 amended to read that my request of Mr. Richardson in
21 the future that he provide -- interlineate the term
22 "directly" to the committee memoranda reflecting the

1 level of detail contained in his January 18, 2007
2 memorandum.

3 And that subject will be addressed in more
4 detail later on in the agenda. But I'd like to move to
5 amend that.

6 MS. SINGLETON: I'll accept that as a friendly
7 amendment.

8 CHAIRMAN McKAY: Thank you. Any other
9 comments or questions about the minutes?

10 (No response.)

11 CHAIRMAN McKAY: I call the question. All
12 those in favor of the motion say aye.

13 (A chorus of ayes.)

14 CHAIRMAN McKAY: Opposed?

15 (No response.)

16 CHAIRMAN McKAY: Thank you.

17 Topic No. 3 is the presentation on fiscal year
18 2006 audit and report on delay in the completion of the
19 audit. Mr. West and Mr. Merryman? Mr. Merryman.

20 MR. MERRYMAN: Where did he go?

21 MS. SINGLETON: He's right behind you.

22 MR. MERRYMAN: I understand that.

1 CHAIRMAN McKAY: A thousand percent.

2 MR. MERRYMAN: My name is Ronald Merryman. I
3 am the assistant inspector general for audit. And I am
4 here to present the -- transmit the results of the 2006
5 fiscal year financial statement audit.

6 As has been in the past, the independent
7 auditors have expressed a clean opinion, which means
8 that it is their opinion that the financial statements
9 presented by LSC fairly represent the financial
10 position and changes in operations of the Corporation,
11 and that the statements are in conformity with
12 accounting principles.

13 Also, the independent auditor's report on
14 compliance and internal control disclosed no instances
15 of noncompliance that are required to be reported under
16 the government auditing standards.

17 In looking at the testimony of Nancy Davis
18 back in January when she addressed the committee, it
19 stays the same. There has been no change that the
20 Corporation is consistent and solid, that it is a clean
21 opinion.

22 And I'd entertain any questions or any more

1 information that may be wanted on the actual statement
2 itself or the actual report. If not, I will talk about
3 the delay.

4 CHAIRMAN McKAY: Let's see. Are there any
5 questions about the audit itself before we move on to
6 the subject of the delay? Herb first, then Sarah.

7 MR. GARTEN: With respect to complying with
8 government auditing standards, what specifically do
9 you, the IG -- what tacks do you take to make certain
10 that that report does comply with the government
11 standards?

12 MR. MERRYMAN: Yes, sir. What we do is we
13 apply the provisions of the GAO Financial Manual 650,
14 which requires, as a minimum, for us to look at the
15 planning process, to look at the qualifications of the
16 individuals conducting the audit, and also to conduct a
17 review of working papers, which we did do.

18 We did a limited review of working papers at
19 the independent auditor's place of business to assure
20 ourselves that the audit was conducted in accordance
21 with generally accepted government auditing standards.
22 And we have satisfied ourselves that we found no

1 material noncompliance with that.

2 We do not take as our own the opinion of the
3 auditor. It is the auditor's opinion. But we did not
4 find -- nothing came to our attention for us to
5 question the validity of the opinion or that it was
6 done in accordance with government auditing standards.

7 MR. GARTEN: This is a follow-up. What do you
8 do, in choosing the independent auditor, to make
9 certain that they do comply with these government
10 standards?

11 MR. MERRYMAN: It's part of the contract
12 requirement that they are able to show that they are
13 familiar with government auditing standards and that
14 they can comply, whether it be the CPE requirements,
15 the knowledge of the Yellow Book. It's in the
16 contracting process that we ask for information on
17 this.

18 And so that's how we assure ourselves
19 initially that they should be able to do the work and
20 qualify to do the work.

21 MR. GARTEN: Thank you.

22 MR. MERRYMAN: Yes, sir.

1 CHAIRMAN McKAY: Sarah.

2 MS. SINGLETON: The auditors that we've had
3 have given the independent public accountants who'd
4 been looking at our programs a clean bill of health for
5 a few years, haven't they?

6 MR. MERRYMAN: Four or five years, yes.

7 CHAIRMAN McKAY: Can you tell me why they
8 didn't pick up anything goofy in American Samoa?

9 MR. MERRYMAN: They do not look at the
10 individual -- oh, our auditors?

11 MS. SINGLETON: Yes.

12 MR. MERRYMAN: Meaning Oppenheim for this
13 statement?

14 MS. SINGLETON: Yes.

15 MR. MERRYMAN: They do not look at the grantee
16 program.

17 MS. SINGLETON: So what are they looking at?

18 MR. MERRYMAN: They're looking at the
19 disbursement of funds, how it's handled up at the
20 headquarters. They're not conducting an audit of any
21 recipient. This audit firm only looks at how
22 management conducts its business in regard to the

1 financial statements of the organization, and whether
2 or not any laws or regulations that apply to LSC, the
3 headquarters, has been complied with. In their
4 opinion, there's been no significant noncompliance.

5 MS. SINGLETON: Who looks at the independent
6 public accountants who audit our grantees?

7 MR. MERRYMAN: The OIG does.

8 MS. SINGLETON: Is that you?

9 MR. MERRYMAN: That is us. Not me in
10 particular, but the staff does.

11 MS. SINGLETON: Okay. So did you notice
12 anything funny about American Samoa?

13 MR. MERRYMAN: Immediately. With the
14 financial statements that came in, there was a
15 disclaimer of opinion in the first set of the financial
16 statements. The first funny thing that occurred was
17 the difficulty in getting the first audit done, and the
18 claim of -- there were no CPAs available or having
19 difficulty, whereupon we sent information to the
20 program where we found CPAs or CPAs who may reside in
21 Hawaii or other places.

22 But we ran across some of the same problems

1 that management did in getting responses from the
2 program. As a result of the first audit, which was
3 submitted late, I believe there were special grant
4 provisions put in the 2005 grant to address some of
5 these issues about internal control and those types of
6 things.

7 CHAIRMAN MCKAY: Any other questions about the
8 audit itself before he moves on?

9 MR. FUENTES: Mr. Chairman, Tom Fuentes here.
10 I would just like to add, in response to Sarah's
11 comment, that perhaps you might recall, not terribly
12 long ago, we discussed -- I think it was in the context
13 of the Finance Committee meeting -- of a certain number
14 of organizational agency recipient audits to be
15 performed.

16 And there was quite a debate on the board as
17 to was it appropriate or should we fund the inspector
18 general to be doing those year after year number of
19 audits out there in the field. And some of us felt
20 that that was very appropriate. Others did not support
21 it. That was the substantive debate on the part of the
22 board.

1 CHAIRMAN McKAY: Thank you. Any other
2 comments?

3 (No response.)

4 CHAIRMAN McKAY: Could you go ahead,
5 Mr. Merryman, and tell us a little bit about the reason
6 for the delay?

7 MR. MERRYMAN: Yes, sir. I did send a memo
8 out on that to give the overview of the delay that
9 really resulted from several factors coming together at
10 one time.

11 In the testing and in the preparation, as
12 indicated by Ms. Davis, LSC is very, very well prepared
13 for the audit and always provides the required
14 information, as they did this year. However, sometimes
15 in the testing or in the questions, in looking at the
16 process that's going to take place for the testing
17 that's going to take place, sometimes specific issues
18 arise.

19 And that's what happened, really, in this
20 particular case. The main issue dealt with the test of
21 the accounts payable balance. And there was difficulty
22 with the public accountants in getting the

1 certification or getting the reconciliation for the
2 test transactions to come into agreement.

3 It wasn't anything severe. It's just
4 something that needed to be done. And they worked with
5 and asked different questions of and came back and
6 asked more questions of LSC management to provide
7 information.

8 At the time that Ms. Davis addressed the
9 Finance Committee, there were four outstanding issues.
10 Two of them dealt with footnotes, which were easily
11 resolved. One of them dealt with formulas. And this
12 one dealt with accounts payable reconciliation, which
13 was expected to be resolved shortly.

14 In doing the review, there was nobody, I
15 believe, that was not acting in good faith to get this
16 done. But it was not resolved quickly. And it kept
17 going back and forth as to, can you answer this
18 question? I need a little more information here in
19 order to meet that requirement of their professional
20 duties and reconciling and getting answers to
21 questions.

22 In looking at this from -- well, let me first

1 say that because it took until after March 1st to
2 finally resolve the issue, to finally have all the
3 information they felt comfortable so they could express
4 their opinion, that another standard dealing with
5 related events or the distance the financial statements
6 are from when the field work is completed, their
7 quality control process indicated that they needed to
8 hear back from the attorneys to get recertifications on
9 continent liabilities that may be out there and to see
10 if anything had changed. This added six weeks to the
11 process in order to get that done.

12 Now, LSC worked very diligently through OLA
13 and through the finance office to obtain these
14 certifications. There was almost daily e-mails trying
15 to get these certifications and getting the status on
16 them.

17 Now, as I looked at this and looking for
18 process improvement, I believe that the OIG will be
19 able to and should be able to and should have been more
20 active in making sure people were understanding what
21 the issues were by having face-to-face meetings because
22 we were asking questions of and the status of, but we

1 were not having face-to-face meetings with the people,
2 calling parties together, which I think would have
3 helped facilitate this tremendously.

4 The IPAs, when they got information, sometimes
5 the people who needed to analyze it were on another
6 job. It took three or four days. There was sickness.
7 One individual was out for three or four during this
8 process. And each day added more and more time.

9 CHAIRMAN MCKAY: This is helpful. I have a
10 better understanding. And I want to keep us on
11 schedule. So what I hear you saying is that there
12 was -- we had a series of delays that accumulated as a
13 result of the initial delay and the inability to
14 balance a couple of financial accounts.

15 But it's something that you now know about and
16 that we've expressed --

17 MR. MERRYMAN: Yes, sir. Right.

18 CHAIRMAN MCKAY: -- a concern about the
19 timing, and that perhaps in the future we can all do a
20 better job keeping a fire under folks and asking our
21 independent auditor to do a better job in the future.

22 MR. MERRYMAN: Absolutely.

1 CHAIRMAN McKAY: And the next question I want
2 to ask, and this should not be interpreted as a
3 reflection on what you've just discussed but really to
4 help me grow as chair of the Finance Committee.

5 I understand that the responsibility of
6 choosing the outside auditor was delegated to the IG by
7 the board a while ago. Is there any reason why the IG
8 should be doing this other than it's a function of it
9 being delegated to you?

10 MR. MERRYMAN: Is there a reason why we
11 should? I think there are reasons that we should. Part
12 of it is based in the CFO Act that does not apply to
13 us. But for the government organizations that have an
14 IG, the IG is responsible for that function to select
15 the IPA.

16 It does relieve the board of some day-to-day
17 management of trying to assemble and bid and evaluate
18 and award a contract. I think the board very much
19 should be involved in the process, in the selection
20 process. And the question would be how deep -- really,
21 in my mind the question is how deep involved do you
22 really want to be in that process.

1 But I think it does give a -- if you look
2 at -- and forgive me for not having Sarbanes-Oxley
3 right in front of me. But we're in a situation where
4 we have a board. Most public corporations do not
5 have -- or private corporations that are subject to SEC
6 regulations do not have an IG function. Most
7 government agencies, major government agencies, or all,
8 have an IG function.

9 And so we sort of have a conflict. We have a
10 hybrid. And I think it would be very appropriate to
11 sit down and have those discussions: How far does the
12 board want to be involved in that process?

13 CHAIRMAN McKAY: I wonder if that would be
14 appropriate, not for right now, but that we ask for the
15 committee's input -- anyone on the board, of course,
16 anyone's input on this. But I wonder if it might be
17 appropriate -- and again, I want to emphasize, my
18 posing the question is not a function of the delay that
19 happened.

20 And I'm just wondering if it's appropriate for
21 us to take a step back and say, why are we employing
22 this process? Should we review the process we go

1 through in how we choose the outside auditor? And I'm
2 wondering if it would be helpful for the committee if
3 we had a presentation, maybe at our next meeting, to
4 explain what our options are and revisit that subject
5 entirely.

6 MR. GARTEN: It is certainly clear to me that
7 we have oversight responsibilities, at the minimum.
8 And this delay, I know you don't want to -- it's a
9 series of events that caused the delay, not one thing.
10 The reconciliation in the accounts payable did not hold
11 this up by itself. There had to be more.

12 If our independent CPA is here today, do they
13 have a different comment to make as to why there was a
14 delay?

15 MR. MERRYMAN: I do not -- I don't want to
16 speak to them, but in the discussions we had, that is
17 the only real delay other than the CPA firm was very
18 forthcoming with where their staff was at at the time
19 information was received, how many days it took them to
20 review the information received, how many days
21 individuals were on other jobs that delayed the review
22 of information received, and how many days their staff

1 was out sick.

2 MR. GARTEN: Based upon what you said, it
3 seems that if there had been contact between our
4 finance people and you and the independent CPA firm,
5 things might have gone smoothly.

6 MR. MERRYMAN: I truly believe it would have,
7 sir. And looking at the process and looking at the
8 role that we played in this particular cycle, I think
9 we could be and should be a lot more active, to the
10 point of setting suspenses for these things to be
11 resolved and meeting face to face with all parties
12 involved, not through e-mail traffic, not back and
13 forth, to sit down to make sure we're not talking past
14 each other to get through these issues.

15 MR. GARTEN: Would they be inclined to say
16 that there were more demands placed upon them this year
17 than in prior years? You mentioned the quality control
18 people asking for more information.

19 MR. MERRYMAN: There could have been more
20 demands based on the new standards, or they had to
21 apply the standards, which may have caused -- I don't
22 know that for sure. I did not get to that detail. I

1 do not have access to that detail. But we do have a
2 meeting set up for Thursday of next week with Nancy
3 Davis, and can approach those subjects with her at that
4 time.

5 CHAIRMAN McKAY: Sarah.

6 MS. SINGLETON: Can you refresh my
7 recollection as to what was the initial due date for
8 our audit?

9 MR. MERRYMAN: 31 December, a report date of
10 31 December, draft due the 15th of December.

11 MS. SINGLETON: All right. It's been
12 recommended that it should be finalized by
13 October 15th. Is that possible?

14 MR. MERRYMAN: I'm going to find out Thursday.
15 Because it's going to require work on both sides, and
16 I'm starting discussions with the IPA to see what can
17 be done this year to speed up the process, and then
18 what management -- then when you have a discussion with
19 management, what they need to be able to do in order
20 for that to happen.

21 Some of this requires work done ahead of time,
22 before the end of the fiscal year, then updated with

1 fiscal year-end information. So it would have to be
2 scheduled and planned, and we will be working that.

3 CHAIRMAN McKAY: Thank you. Does anyone have
4 any opposition to addressing the process we go through
5 in choosing the outside auditor, that is, taking a step
6 back and looking at the vehicle we've created to choose
7 the outside auditor?

8 MR. GARTEN: I had been under the impression
9 that we legally were bound to have the auditors chosen
10 by the inspector general. Am I wrong?

11 MS. SINGLETON: Yes. I was, too.

12 MR. GARTEN: Am I wrong?

13 CHAIRMAN McKAY: I understood that we
14 delegated it to the IG. But maybe that should be the
15 first topic of discussion, then.

16 MS. TARANTOWICZ: Laurie Tarantowicz, OIG
17 counsel. As Dutch alluded to and throughout the
18 federal government in agencies subject to the Chief
19 Financial Officers Act, the inspector generals are
20 required to choose the auditor.

21 We are required to supervise the work of
22 auditors under the IG Act. But we are not required to

1 be the one to choose the auditor by law.

2 CHAIRMAN MCKAY: Then I guess I'd like to
3 discuss that subject. I'd like to find out what our
4 obligations are, what our options are. And we might
5 very well decide to proceed as we have in the past. But
6 I'd just like to know what our options are. And so
7 unless I hear an objection, we'll just place it on the
8 agenda for the next meeting.

9 MS. BeVIER: Mr. Chairman?

10 CHAIRMAN MCKAY: Yes.

11 MS. BeVIER: Excuse me. Do you imagine the IG
12 or the controller presenting us with a staff report on
13 what the options are?

14 CHAIRMAN MCKAY: Yes. I'd like to hear
15 from --

16 MS. BeVIER: I see.

17 CHAIRMAN MCKAY: I appreciate that
18 clarification. Yes. What I do envision is I'd
19 certainly like to hear from the IG on the legal
20 analysis and from staff, Mr. Richardson and others, who
21 could tell us -- and perhaps Vic's office -- to tell us
22 what our legal obligations are, but also our options

1 within those legal obligations.

2 MR. MERRYMAN: All right, sir.

3 CHAIRMAN McKAY: Thank you. Is that all
4 right? All right. Anything further on this subject?
5 Yes?

6 MS. PHILLIPS: I wanted to know if management
7 had something on SOX. Because it was brought up in
8 April. So I wanted to know if they had anything where
9 we could look at it and become familiar with it.

10 CHAIRMAN McKAY: It's in the closed session of
11 the board this afternoon, the briefing.

12 Thank you. Item No. 4 is report on the
13 appropriate financial statement standards for LSC.
14 Mr. Merryman and Mr. Richardson.

15 MR. RICHARDSON: Actually, I placed at each of
16 your places, your seats yesterday, a memo. And I had
17 written up in the upper right-hand corner page 117.
18 And I'll refer to that as I go through here.

19 Our original plan was to get the GAO report
20 and review it, and provide you an oral presentation at
21 this meeting, and follow it with a written
22 recommendation in October. What I did was to sit down

1 and review the actual reports, not the standards at
2 this point because of the lateness of getting the GAO
3 report, and tried to compare a little bit and show you
4 in two paragraphs the differences of the reports.

5 The Financial Accounting Standards Board's
6 report, and I have an old one with me, is 11 pages.
7 It's very bare bones when you compare it to the
8 Government Accounting Standards Board's formatted
9 financial statements.

10 It contains a lot of the same information,
11 just in a little different format. One of the things
12 that the General Accountability Office brought up was
13 that there was no statement of cash flows. And when
14 they originally looked at it, they really felt that we
15 should look at which would be the best for Legal
16 Services as far as to filing a report.

17 You have a balance sheet under the FASB. You
18 have a balance sheet, but it's titled "Statement of Net
19 Assets and Governmental Fund Balance Sheet."
20 Basically, it analyzes the fund balance in the balance
21 sheet. There's also a statement of supported revenue
22 and changes in fund balance.

1 Within the FASB, within the GASB
2 statements -- these are my acronyms here -- you have a
3 statement of activities and governmental fund balances,
4 expenditures, and change in fund balance. So it's a
5 presentation. Instead of along the lines of budget
6 categories is what we produced with the FASB, we do it
7 based on activities within the Corporation, by office.

8 We do present the functional analysis, the
9 budget categories, in the management discussion and
10 analysis. That is the main change really between the
11 two statements. We have a discussion of the
12 activities. There's six elements of that.

13 It's a financial -- overview of the financial
14 statements; financial highlights, where we go into what
15 has happened during the year; financial analysis of
16 LSC, where we provide some information in regards to
17 the overall statements; capital assets and long-term
18 debt, which basically we have to put it in there but we
19 don't have any long-term debt at LSC.

20 And then second, and probably the most -- what
21 I think the most highlights should be on is the general
22 fund budgetary and future analysis, future events.

1 I think within those categories, we can
2 actually demonstrate, as we're looking at
3 Sarbanes-Oxley, the board's role and management's role
4 in the process itself. The MD&A can be used to
5 demonstrate the board's involvement with the board
6 process; oversight of programs and initiatives; and it
7 calls to be another avenue to showcase the work of LSC
8 and our grantees.

9 I say that to say that the government
10 financial statements do provide a great deal more
11 information. As far as the analysis, we will certainly
12 conduct one. But it's mainly a decision with the board
13 at this point whether we want to provide more
14 information, be more transparent, or produce a very
15 bare-bones financial statement for public presentation.

16 CHAIRMAN MCKAY: So currently, we are
17 employing GASB. Is that correct?

18 MR. RICHARDSON: Yes, sir.

19 CHAIRMAN MCKAY: And that has more information
20 than FASB?

21 MR. RICHARDSON: Absolutely. Yes, sir.

22 CHAIRMAN MCKAY: And remind me again what

1 GAO's recommendation is.

2 MR. RICHARDSON: There was no recommendation.
3 They just said that we need to do an analysis to review
4 which would be the most appropriate for Legal Services.

5 CHAIRMAN McKAY: One issue I want to take
6 with -- and perhaps I'm misreading the last sentence of
7 the first paragraph of your memo, that somehow we began
8 this analysis with the GAO recommendation. I mean, we
9 started looking at this when Nancy Davis spoke to us
10 last January. Isn't that correct?

11 MR. RICHARDSON: We did. But management had
12 determined that what they would do before making the
13 evaluation is they would wait and get the
14 recommendation of GAO, and then make a determination
15 based upon what they brought forward. Basically, they
16 didn't bring forth a recommendation.

17 CHAIRMAN McKAY: But this has been on our
18 screen before GAO, and I just wanted to make sure it
19 was clear that it's something we'd been looking at and
20 thinking about before then. And perhaps we have
21 waited. But that's fine.

22 Questions or comments?

1 MS. SINGLETON: Mr. Chairman, a point of
2 order. I think that we need to not refer on the record
3 to the GAO recommendations.

4 CHAIRMAN McKAY: Yes. Okay.

5 MS. SINGLETON: And would ask the witnesses
6 not to do so.

7 CHAIRMAN McKAY: I regret that, and will not
8 do that any further. Thanks.

9 Any other questions or comments that are less
10 damaging than mine?

11 (Laughter.)

12 MR. GARTEN: Just to confirm what you're
13 saying, that we got into this some time ago, you could
14 just ask Mr. Richardson to insert the word -- after
15 "Management asked," just put "some time ago."

16 CHAIRMAN McKAY: Fair enough. Any other
17 questions or comments?

18 (No response.)

19 CHAIRMAN McKAY: Thanks very much.

20 The next item is for Mr. Richardson,
21 reporting -- this is the response to the audit
22 management recommendations.

1 MR. RICHARDSON: Again, I placed a memo at
2 your seats yesterday behind the first one that we just
3 went over discussing the response to the auditor's
4 management letter. There were three points, three
5 comments, that they brought, written comment, to the
6 board in regards to with the financial statements.

7 The first discussed the user access to our
8 accounting system and a yearly recertification of
9 users. Much of what they've asked for is in our
10 accounting software manuals, and we've not really tried
11 to re-document all the items that are covered in those
12 manuals in our accounting procedures manual.

13 To satisfy this particular requirement, we
14 have created a record. We've already created a record
15 of our practices, and we've expanded it to include a
16 recertification that each operator's access is
17 appropriate.

18 Additionally, when we have a new user or have
19 someone who has left the Corporation -- I'll start
20 there -- I have developed a practice, if that person
21 has a unique user identification, as to changing the
22 password so that we can keep it. And quite honestly,

1 there's only been one of those in the last five years.

2 And when that person was replaced, and usually
3 it's someone that you want to -- that has left the
4 corporation, and then you want their replacement to
5 have this unique information to be able to access the
6 system, I've changed that password so there cannot be
7 any unauthorized use of the system. And then when the
8 new person is hired and brought in, we then make sure
9 that the user documentation is accurate, and then we
10 delete the password and the user setup.

11 We've documented that practice fully within
12 our procedures, and we will have it within our
13 accounting procedures manual. And then, of course, we
14 will have to test that each year for the auditors to
15 show that we're in compliance and we plan on doing that
16 with each of our users in the future.

17 The second comment addressed the inventory
18 management. And we had quite a bit of discussion about
19 a couple of items. The written comment was that we
20 developed a policy to annually evaluate the condition
21 and use of assets and begin using the fixed asset
22 module that we have internally.

1 As part of the inventory process, we are
2 asking those people who do the inventory to make sure
3 that all the furniture, equipment, computers,
4 everything that we are including in the inventory is
5 usable. It's not obsolete.

6 Last year we had a situation where we had
7 15 computers sitting in a room that was not accounted
8 for in the inventory because they were obsolete. We
9 were trying to find somebody to -- a school is what we
10 normally do to hand them off to. There was no comment
11 about that except they felt that we probably should
12 segregate them a little more fully.

13 This year we went through and did the
14 inventory, and we had five or six computers again that
15 were obsolete. We routinely wait until the end of the
16 year to do our computer replacement. So there were
17 some sitting in our computer room that we were going to
18 give away. They were not -- should not have been in
19 the inventory, and we inadvertently included them in
20 the inventory.

21 So we're going to do two things. We're going
22 to make sure that the person who is conducting the

1 inventory is that all the furniture and equipment that
2 is being used will be included in the inventory. If
3 there's anything broken or obsolete, we will take it
4 out of the inventory and segregate it appropriately.

5 Same thing with the computers. We will count
6 everything that is in good use, and those things that
7 we've taken out of service we will segregate, so
8 nothing, and take them out of the physical inventory.
9 And we'll have our director of information technology
10 do that.

11 There's also a discussion about the
12 capitalization limit. And last year there was a
13 discussion that I had with Nancy that we increase our
14 capitalization limit to \$5,000. I feel for a
15 corporation our size, with the purchases that we're
16 making, that that was too high.

17 We had a further discussion at the January
18 board meeting that she's now come back, and it was not
19 in the written comment, but she did state that she felt
20 that we should go to a thousand dollars. Being a
21 not-for-profit, it doesn't really help us. And I will
22 freely admit what we have done is we've combined two

1 things. We've combined our physical inventory and our
2 record-keeping and our record-keeping of fixed assets
3 so that we can comply and provide as accurate
4 information as possible to our insurance company.

5 We do have a module, an update, that's coming
6 in October. We are going to evaluate the process of
7 increasing our capitalization limit to a thousand
8 dollars, and then have the system also keep a record of
9 the accountability of information needed for our
10 insurance.

11 So we're in the process of doing that. It
12 will be updated and hopefully completed in October so
13 that we can make that assessment. At this year, in
14 talking with our director of information technology, we
15 have currently left the capitalization limit at \$500.
16 But we could certainly go back and make an adjustment
17 during the year to increase it if the software will
18 handle the reporting needs that we have. And we'll do
19 that after we evaluate the software.

20 CHAIRMAN McKAY: Thank you.

21 MR. RICHARDSON: One more item.

22 CHAIRMAN McKAY: Go ahead.

1 MR. RICHARDSON: The third comment talked
2 about control procedures. We have a process
3 of -- there's two people on the staff that post journal
4 entries. All the other staff make them and provide
5 them to us. However, when it's such a small office,
6 when somebody's on vacation, we have to pick up their
7 work and complete it for them.

8 The accounting manager and myself, when we do
9 that, sometimes we don't put an adding machine on the
10 tape to show that we've added the invoices up to make
11 sure -- I shouldn't say the invoices, the invoice,
12 because it's per invoice -- to make sure the invoice is
13 added properly. And we also at that point write the
14 accounting code and the cost center on it.

15 We discussed it internally. We have that
16 procedure in place. And we will make sure that that's
17 done in the future.

18 CHAIRMAN McKAY: Thank you. Questions or
19 comments for Mr. Richardson?

20 (No response.)

21 CHAIRMAN McKAY: Thank you very much.

22 Mr. Chairman, I notice that we're at 12:19 and

1 we're set to go to lunch.

2 MR. STRICKLAND: Let me make an announcement
3 about that. Because we have been sort of overtaken by
4 events, we have a very heavy agenda. And to improve
5 the efficiency of the board's operations, we've
6 arranged for the board's lunch to be served right
7 outside this room as opposed to the general lunch,
8 which will be at the usual location on the fourth
9 floor.

10 Isn't that correct, Helaine?

11 MS. BARNETT: That's correct.

12 MR. STRICKLAND: And unless there's objection
13 from the board or any member of the public, I propose
14 that we take up the closed session meeting of the
15 board, to the extent we can get it finished, during the
16 noon hour as a working lunch.

17 Is there any objection to that? I did want to
18 note for the record that we will follow that process.
19 Hearing none, then we will follow that process. But I
20 think we'd like to do that as close to 12:30 as
21 possible. If you can get another agenda item or so --

22 CHAIRMAN McKAY: That would be great. No, no.

1 Sounds great.

2 Let's move on to item No. 6, consider and act
3 on final response to recommendations from the OIG
4 report on certain fiscal practices. Mr. Jeffress.

5 MR. JEFFRESS: Thank you, Mr. Chairman. In
6 your board books at page 118 are a copy of the report
7 that went to the inspector general, which we believe
8 will suffice to close out all of the recommendations
9 from last year's report of certain fiscal practices.
10 Some of it repeats what you've heard earlier.

11 We have now rewritten -- have new drafts of a
12 couple of chapters of our administrative manual to
13 address the issues that were outstanding. So I'm going
14 to only address, if it's all right with you, those
15 areas where there is something outstanding that you
16 have not heard before.

17 With respect to the LSC spending practices, we
18 revised chapter 10 of our administrative manual and
19 chapter 14 of our administrative manual to address
20 these issues of where our spending practices had been
21 at odds with the federal government practices, to bring
22 our practices more in line with those of the federal

1 government. And we have done that in virtually every
2 area where there was a difference.

3 There are four areas where we are different
4 that I would call to your attention. And the inspector
5 general's report recommended that the board actually
6 approve such differences where they exist. Our
7 recommendation was the board not get into the business
8 of approving individual changes to the administrative
9 manual, but that we brief the board on where there are
10 differences.

11 So we pose this as a briefing. Of course, the
12 board is free to decide to take up the responsibility
13 for modifying the administrative manual should you
14 choose to do that.

15 But the four areas where our spending
16 practices are different at this point from those of the
17 federal government. First is with respect to car
18 services, and you all are -- we covered this earlier.
19 The federal government has no provision on when people
20 can use car services because the federal government
21 provides cars and drivers to their senior officials.
22 We don't provide that, so on the occasion, on the rare

1 occasion, where we would anticipate a car service be
2 used, we have inserted a paragraph in our
3 administrative manual on how such can be approved.

4 A second area in terms of internal conferences
5 and expenses for guests: We invite, for our purposes,
6 people to come to meetings with LSC officials -- and
7 frequently these are executive directors of the
8 grantees around the country -- to help inform our
9 discussions of policies and things we're considering.

10 For instance, we have a conference coming up
11 this fall on our strategic plan for technology. It was
12 in our strategic directions. You will recall one of
13 the things we said we would do is develop a strategic
14 plan for technology for the legal services system.

15 We will be inviting people, both executive
16 directors, people familiar with technology, to come to
17 Washington for a meeting to discuss what direction we
18 should go in this. We intend to pay for the expenses
19 of such individuals coming to assist us with that
20 purpose.

21 The federal rules are tighter on this in terms
22 of they only allow the payment for invited guests where

1 those guests have a specific role in the program. And
2 we would intend to continue to pay for invited guests
3 where we feel it's important to serve a function of the
4 Corporation.

5 Another example might be at a conference, at
6 the equal justice conference, for instance, or the
7 NLADA conference, where we want to have a meeting with
8 a group of, for instance, executive directors to
9 discuss a specific issue, we frequently can't get time
10 at that conference because all the other times are
11 scheduled.

12 So the president or the vice president might
13 call the group together for lunch, and we would pay for
14 the lunch, in order to discuss that item of business
15 with those individuals. And we want to be able to pay
16 for that lunch because they're coming to assist us in
17 the development of policy.

18 So that is an area where we would continue to
19 follow the practice we have had in the past for such
20 expenses. But it might be -- someone with a very
21 strict reading of the federal policy might consider
22 that to be different from the federal policy.

1 A third area of difference is with respect to
2 what we provide internally for LSC employees. The two
3 things that were picked out and pointed out in the
4 certain fiscal practices report, one was the provision
5 of flowers at Corporation expense to individuals and
6 their families who have suffered an illness or a death
7 in the family.

8 At this point we are recommending to end that
9 practice and to take -- require voluntary contributions
10 from -- or solicit voluntary contributions from staff
11 when we want to send expressions of sympathy. Because
12 there was some discussion of that at the last board
13 meeting, that practice is planned to go into effect
14 August 1st in the event that this committee or this
15 board wanted to tell us to do difficulty. But our plan
16 is to conform to federal practice and stop using
17 appropriated dollars for that purpose unless directed
18 otherwise by the board.

19 However, the other area, which is the
20 provision of coffee and tea for employees in the
21 Corporation, at the workplace, the federal government
22 does not provide for the payment of that. We propose

1 to continue providing coffee within the LSC offices for
2 LSC employees.

3 The final area of difference is with respect
4 to business entertainment. Currently, our manual
5 allows the president or appropriation officer to take
6 someone to dinner when it's in the pursuit of LSC
7 business and for LSC to pay for that dinner.

8 In the federal government, that is permitted
9 when the agency has a specified reception and
10 representation fund that's authorized by Congress. We
11 have no such specific line item authorized by Congress.
12 The Comptroller General, in an opinion for the
13 Corporation for Public Broadcasting, stated that
14 Corporation for Public Broadcasting needs no such
15 representation and reception funds because the law
16 prohibiting that business entertainment doesn't apply
17 to them.

18 The same principle applied to us. We need no
19 such line item in order to authorize business
20 entertainment expenses. Nevertheless, even though we
21 don't need a line item like that and we don't want to
22 request Congress to give us something we don't need, we

1 do think we should follow the same general guidelines
2 that the federal government follows with respect to
3 expenses for business entertainment.

4 Therefore, we propose to follow those federal
5 guidelines with respect to business entertainment, but
6 not to seek the specified line item from Congress that
7 federal agencies have because the Comptroller General
8 says we don't need it.

9 One further modification that Dutch and I
10 discussed this week in his response to this practice
11 we're proposing was that while no need to seek -- he
12 understands why we're not seeking congressional
13 authorization -- it's perhaps within our budget we
14 should have a line item that captures what the expenses
15 are so we can at least tell you what we expect to spend
16 on those kinds of expenses during the course of the
17 year and track them separately, which would not be a
18 problem for us to incorporate that in our accounts.

19 But those are the four areas where what we
20 propose to do are different from what the feds do. We
21 wanted to brief you on it, consistent with what you had
22 said about the certain fiscal practices report. And my

1 anticipation is, having discussed these areas with
2 Dutch, that if we proceed in this manner, this will
3 close all of these recommendations and we can put this
4 behind us.

5 CHAIRMAN McKAY: Questions or comments?
6 Lillian.

7 MS. BeVIER: It's possible that we talked
8 about this, and this is fairly minor, but I was not at
9 a good bit of the board meeting last April. So the
10 board held -- it has to do with the annual board
11 meeting at LSC headquarters.

12 MR. JEFFRESS: Yes.

13 MS. BeVIER: I'm interested in -- if this has
14 been done before, I can -- have we talked about it
15 before? Just the question of what the comparative cost
16 is with respect -- I mean, have you gone back to the
17 Melrose or some other hotel and said, we need to try to
18 do it cheaper? Would it work, and see if that works,
19 or not?

20 MR. JEFFRESS: We have not done that based on
21 the experience last year, I thought the info or
22 feedback from the board was to have the meeting at the

1 offices again this coming January. But we'd be happy
2 to revisit that if you'd like us to do that. The hotel
3 expenses, of course, for lodging are going to be the
4 same wherever because we get the government rate for
5 the folks who come to town.

6 MS. BeVIER: That's right. Yes.

7 MR. JEFFRESS: So we're really only talking
8 about the expenses for food and meeting rooms.

9 MR. STRICKLAND: Perhaps, in response to that
10 question, which I think is a good one, perhaps it would
11 be helpful if you could just send us a memorandum. As
12 you pointed out, the lodging is lodging, but a
13 memorandum comparing the expenses between one location
14 and another. And that might require some sharpening of
15 the pencil by somebody who would want to compete with
16 the notion of holding it at LSC headquarters.

17 MR. JEFFRESS: We will provide that
18 information. We can do that.

19 MR. STRICKLAND: Would that be responsive to
20 your request?

21 MS. BeVIER: Yes, it would. I mean, I just
22 think that we ought to keep that option open until we

1 know for sure that it's appropriate and very prudent to
2 close it.

3 MR. GARTEN: It's going to be pretty difficult
4 to quantify the inconvenience and the expense of going
5 from one location to the other, both for the board and
6 for others who would be attending the meeting.

7 MR. STRICKLAND: Well, we hope that our
8 creative staff can come up with some estimates of those
9 costs as best they can.

10 MR. JEFFRESS: We may have to leave a line
11 item open for you to fill in the number you would
12 prefer.

13 MS. BeVIER: Just give it a try.

14 MR. JEFFRESS: Right.

15 CHAIRMAN McKAY: Thank you. It's now 12:31.

16 MR. STRICKLAND: Is that the end of that item?

17 CHAIRMAN McKAY: It is.

18 MR. STRICKLAND: Thank you. Good job.

19 (Whereupon, at 12:30 p.m., a luncheon recess
20 was taken.)

21

22

1 A F T E R N O O N S E S S I O N

2 2:03 p.m.

3 CHAIRMAN McKAY: If we could be seated. The
4 meeting of the Finance Committee will resume.

5 We're in item 7, consider and act on fiscal
6 year 2007 revised consolidated operating budget.

7 Mr. Richardson, and Mr. Jeffress is here as well, I
8 see, sir.

9 MR. RICHARDSON: Thank you, sir. I'm looking
10 at page 129, the memo that you were provided regarding
11 this information.

12 When we began this year's budget process, many
13 of the budget categories were limited to the 2006
14 expenses. When a new initiative was undertaken, and
15 because of new initiatives undertaken, we are having to
16 look at these internal budgetary adjustments to provide
17 some funding for the initiatives.

18 Within the executive office, a conference on
19 technology has been planned. And this conference is to
20 gain some information regarding the available
21 technology and discuss future trends. And we're doing
22 this to develop a strategic vision to guide future

1 technology grants.

2 To be able to do this, we felt that we needed
3 a facilitator who was familiar with this area. And
4 because of that and because we had held the budget for
5 consulting down in the executive office, as we did in
6 other budget categories throughout the corporation, we
7 felt the need to move some money to consulting to take
8 care of this, to be able to fund this initiative.

9 And the money is available from temporary
10 operating -- or, excuse me, temporary employee play
11 because we do not have a position that is being filled
12 there this fiscal year.

13 Additionally --

14 CHAIRMAN McKAY: And before you go on to the
15 next item, you were good enough to give us a very
16 detailed and helpful memorandum dated July 12th. And
17 that's at page 129, as you indicated.

18 I'm wondering if you could hit these items in
19 a more encapsulated approach. Because it's now 2:00,
20 and again, you've given us a very good memo. And if
21 you could quickly hit each one of those topics,
22 allowing therefore a committee member to ask a

1 question, if necessary, and then move on, if you don't
2 mind.

3 MR. RICHARDSON: Be glad to.

4 CHAIRMAN McKAY: Thank you.

5 MR. RICHARDSON: Within the Office of Human
6 Resources, we needed an additional \$6,000 to help fund
7 a travel commitment to a national conference dealing
8 with human resource specialists and different changing
9 laws.

10 Within the Office of Government Affairs,
11 Mr. Constance is beginning to put his stamp on the
12 office the way he'd like to see operations be held.
13 And we're doing that with gathering more information.
14 You'll get a report later about the Equal Justice
15 Magazine, but basically, the money to fund this is
16 coming from the Equal Justice Magazine. We needed
17 \$17,750 to provide the additional need there. And
18 we're also reducing some consulting and printing costs
19 to be able to do that.

20 Within the Office of Financial Administrative
21 Services, we have an employee who is out because of
22 some medical reasons. So we have moved money from

1 regular personnel compensation to temporary employee
2 pay so that we can accommodate that. And we also had
3 an agency temp at one point, and there's additional
4 money needed there to satisfy the funding of that
5 temporary employee, who has now been hired as a regular
6 employee.

7 If the Office of Program Performance, we've
8 had some open positions that are available. The
9 funding for those positions is available, and now we've
10 used that money to move it to printing to print the
11 revised LSC performance criteria, and \$11,000 for the
12 other operating for some upgrade in communications
13 capabilities that were needed in the office.

14 Compliance and Enforcement additionally has
15 open positions. Because of the open positions that
16 they've had, we've had to rely more on consulting. So
17 we've moved \$44,000 into the consulting budget. There
18 was also some additional needs in communications and
19 other operating expense for \$6,000 and \$4,000
20 respectively. So that money is again coming from
21 personnel compensation.

22 Within the Office of Information Technology,

1 you've seen a memo from the president in regards to a
2 new grants management system. The cost of this system
3 is just over \$150,000. And we would like to start the
4 procedure to get that in-house this fall. So what we
5 would like to do is have \$75,000 moved from the
6 contingency fund into the Office of Information
7 Technology to fund the purchase of that and some
8 training so that we can move forward with that
9 initiative.

10 I've reviewed the budget also with the
11 inspector general. They are projecting carryover at
12 this point of \$645,000. And of course, \$463,000 of
13 that is due to the delay in receiving this year's
14 appropriation and the increase in their appropriation.

15 There's one other item that is not covered in
16 the memo. I found out Tuesday from our Office of
17 Program Performance that we are going to receive some
18 money from the State Justice Institute, much like we
19 did last year, to help support the program, the
20 Technology Initiative.

21 We do not have a resolution prepared for that,
22 but I'd like for the board to actually authorize us,

1 once we receive the money, to be able to make the
2 grants from that and approve the \$75,000 transfer from
3 the contingency line to the Office of Information
4 Technology.

5 I'd be glad to answer any questions you might
6 have.

7 CHAIRMAN MCKAY: A quick question. On page
8 130 of your memo regarding compliance and
9 enforcement -- and I don't know if you should be
10 answering; maybe Charles can answer the question -- I'm
11 wondering why OCE continues to have open positions.
12 With it being such an important area, I'm wondering why
13 we aren't filling those slots quicker.

14 MR. JEFFRESS: We have an open recruitment in
15 OCE for attorneys, and we have a program analyst
16 position as well. In seeking to recruit for this
17 position, we've actually had a few folks come in that
18 have turned us down. I see Karen has come up. She's
19 going to tell you more about which particular ones have
20 not been filled.

21 CHAIRMAN MCKAY: Thank you.

22 MS. SARJEANT: We do have a new program

1 analyst starting on the 15th of August. We still have
2 a remaining position open. We have interviewed. We
3 just haven't found the right person.

4 CHAIRMAN McKAY: All right. Thank you. Any
5 other questions?

6 (No response.)

7 CHAIRMAN McKAY: Charles, any comments from
8 you? Oh, I'm sorry. Bernice has a question.

9 MS. PHILLIPS: On Office of Information
10 Technology, the new software that was purchased, is
11 that FOIA software? Because I remember we talking
12 about ordering some software for FOIA.

13 MR. JEFFRESS: Right. No, this is not for
14 FOIA. And this has not yet been purchased, pending
15 approval by the board. This is to replace our grants
16 management software system, which is old in technology
17 terms and has been patched about to the point of its
18 capacity. So we'll be replacing the grants management
19 software. The FOIA software is a much smaller piece.

20 MS. PHILLIPS: How soon will that software for
21 FOIA be replaced or purchased? Because I remember us
22 also saying to Congress that that was one of our

1 intentions.

2 MR. JEFFRESS: Well, what we said we'd do is
3 an evaluation as to whether we needed that or not. And
4 I'll still meet with Vic about whether that is a need
5 we have or not. But it's not a huge investment. It's
6 a relatively small price for the software.

7 MS. PHILLIPS: So Vic, is that needed? I
8 mean, do you not need it? What --

9 MR. FORTUNO: Yes. The FOIA software is
10 something that I know Pat is most familiar with. And
11 my understanding is that the software that she
12 recommended would be very helpful to our FOIA operation
13 in terms of reducing the backlog and better accounting
14 for all of the FOIA activity in our office.

15 So I think it would be helpful. I think it's
16 something that Pat would certainly like. And I think
17 that our OIT folks have been given the information, and
18 it's just a matter of our having a discussion once they
19 finished reviewing it.

20 But it's something we would like to see
21 purchased so we could put it to use in our office.

22 MS. PHILLIPS: Thank you.

1 CHAIRMAN McKAY: Any other questions?

2 (No response.)

3 CHAIRMAN McKAY: Charles.

4 MR. JEFFRESS: No additional comments except
5 to reiterate David's point that while you do not have a
6 resolution in front of you, we do seek a motion
7 approving this consolidated operating budget, which
8 includes the transfer for the grants management
9 software, and if you would, authorizing us to accept
10 and spend from the State Justice Institute monies
11 intended to supplement our TIG grants.

12 M O T I O N

13 MS. SINGLETON: Mr. Chairman, I move that we
14 make that recommendation to the board.

15 CHAIRMAN McKAY: Do I hear a second?

16 MS. BeVIER: Second.

17 CHAIRMAN McKAY: All those in -- discussion?

18 (No response.)

19 CHAIRMAN McKAY: All those in favor say aye.

20 (A chorus of ayes.)

21 CHAIRMAN McKAY: Opposed?

22 (No response.)

1 CHAIRMAN McKAY: It passes. Thank you very
2 much.

3 Move on to item No. 8, presentation on LSC's
4 financial reports for the third quarter, and on
5 projected operating expenditures for the remainder of
6 the year. Gentlemen.

7 MR. RICHARDSON: You were provided via e-mail
8 information in regards to the June financial reports
9 dated July 23rd.

10 I went into a little different explanation
11 with the worksheet in my memo because I wanted to make
12 sure, with the new committee members, that they're
13 aware that our worksheet was made up in two sections,
14 one on the grant-making process, which grants are made
15 annually so we produce a budget in the top
16 quarter -- or top half of the worksheet on an annual
17 basis. And then when we look at the management and
18 administration, the loan repayment program, and the
19 inspector general, we do that on a pro rata basis based
20 on the number of months that we have.

21 For instance, with the basic field programs,
22 all the annual grants have been given, with the

1 exception of two. We're on a month-to-month funding
2 with California Rural Legal Assistance, and we have not
3 funded the Unnai Legal Services Clinic since March.
4 And there are some ongoing issues with each of those
5 that will be handled throughout the year. CRLA is on
6 month-to-month funding, and as we look about to close
7 out funding for Unnai, we will provide some additional
8 funding for that.

9 Within the U.S. Court of Veterans Appeals,
10 there's an annual grant that's been made. The only
11 money that's left is to support the administrative
12 cost. And anything that's left will remain in that
13 line to support next year's cost.

14 The grants from other funds, there is no
15 spending at this point from that budget line. We've
16 had no requests that have been funded to date.

17 Within the technology initiatives, there's
18 just a small amount, under \$6,000, for an increase in a
19 technology grant from last September. So basically,
20 those grants, the technology grants, we hope to have
21 everything completed and the grants made some time in
22 September so that we can fund those early in the next

1 year. But yet the funding cycle is in the process of
2 going on now, and hopefully those decisions can be made
3 so we can finalize the grants in September.

4 Within the second section of management and
5 administration -- these are again on a nine-month
6 basis -- management shows that we are \$1,124,000,
7 almost -25,000, under-budget at this point. We're
8 spending at a greater rate than we did last year.

9 There's \$412,000, basically \$500,000,
10 remaining more than last year. And then we actually,
11 when you look at the annual budget, subtracting the
12 annual expenses to date, we have \$4,720,000 to support
13 the remaining year's operations.

14 With the LRAP project, we have loans so far
15 this year of \$350,000. And we have money
16 available -- once these loans are forgiven, we'll have
17 \$445,000 to help support next year's loan forgiveness
18 program.

19 The inspector general, you'll see that their
20 spending shows that they're \$682,700 under budget, but
21 they've actually spend \$8,000 more this year than they
22 did last.

1 The attachment is big, gives a greater deal of
2 our management and administration. It details the
3 spending by office. And then when you look at page 2,
4 it details the spending by budget category. With the
5 changes that we've just made in the budget -- because
6 this presentation is based on the budget that we've
7 just asked you to approve -- all the budget categories
8 and all the offices are being shown as under-budget.
9 So we're in good shape as we move forward during the
10 year.

11 The same thing with the inspector general's
12 office. There was just a little small change within
13 their office, but they're considerably under budget.

14 CHAIRMAN MCKAY: Thank you. Questions or
15 comments? Mr. Jeffress, any comments?

16 MR. RICHARDSON: Let me make one additional
17 comment. When we did our budget this year, we included
18 \$400,000 in interest revenues to help support the
19 budget. And as of June, we've collected \$315,000. I
20 just wanted to make sure to get that on the record and
21 make you aware of that.

22 CHAIRMAN MCKAY: Thank you. Thanks so much.

1 Anything further on this subject? Thank you.

2 Next topic is discussion of format for
3 provision of financial information to the committee.
4 Let me report to the committee that I have talked to
5 Mr. Richardson. I've talked to Mr. Jeffress. I've
6 communicated with Mr. Fuentes on this subject.

7 You'll recall the concern initiated by
8 Mr. Fuentes and embraced by, I believe, all of us to
9 make sure that we're getting information directly from
10 Mr. Richardson. We asked him, beginning at the last
11 meeting, to submit his reports directly to us, and
12 Mr. Jeffress to comment on those reports and give us
13 any additional information he wants to share with us,
14 also directly.

15 And I've checked with Mr. Fuentes, and he is
16 comfortable with this approach. Mr. Richardson and
17 Mr. Jeffress are. I want to make sure the committee is
18 comfortable. But perhaps we could do a little
19 temperature check on how this is working.

20 Mr. Meites?

21 MR. MEITES: I'm quite comfortable with it.
22 But I am not good at retaining documents that are

1 e-mailed to me, so that -- I read them, but they just
2 don't stay on my floor when I print them out. So that
3 I like them being e-mailed, but I wanted to make sure
4 you bring hard copies to the meetings so we can put
5 them in our notebooks. That's my only comment.

6 CHAIRMAN McKAY: And that is, just to make
7 sure I understand, you would like to have in the
8 notebook then each one of the monthly reports that we
9 receive?

10 MR. MEITES: No. No, just whatever the
11 final --

12 CHAIRMAN McKAY: The final ones?

13 MR. MEITES: Of any document you sent that
14 would be in the notebook, that a hard copy is brought
15 to the meeting.

16 MR. JEFFRESS: I appreciate you saying brought
17 to the meeting because there are some times when these
18 financial reports come out the week after the book has
19 gone out. But we'll make sure you get a hard copy as
20 well.

21 MR. MEITES: Thank you.

22 CHAIRMAN McKAY: Very good.

1 MS. SINGLETON: Mr. Chair?

2 CHAIRMAN MCKAY: Yes?

3 MS. SINGLETON: I believe that I get David's
4 reports by regular mail and Charles' reports by e-mail.
5 I think it would be more appropriate to get them by the
6 same speediness of delivery. And I would prefer
7 e-mail.

8 CHAIRMAN MCKAY: Then I think the best way to
9 handle it is that these be communicated to us by e-mail
10 and by U.S. mail.

11 All right. Any other questions or comments
12 from the committee on this subject? Tom, do you feel
13 comfortable with this?

14 MR. FUENTES: I would just add a word of
15 thanks to all those who responded to positively.

16 CHAIRMAN MCKAY: Well, we thank you for
17 inviting our attention to this important subject.

18 On to item No. 10, report on the status of
19 fiscal year 2008 appropriations process.

20 Mr. Constance.

21 MR. CONSTANCE: For the record, I am John
22 Constance, director of government relations and public

1 affairs for LSC.

2 As I informally have reported to you, the
3 appropriations process is unfolding very well for LSC
4 this year. A good appropriations hearing before the
5 House Subcommittee on Commerce, Justice, Science, and
6 Related Agencies. Good follow-up and a good message
7 have contributed to success to this date.

8 As you are further well aware, to help close
9 the justice gap, at the board's direction LSC requested
10 \$430 million for fiscal year 2008, \$82 million more
11 than this year. More than 95 percent of the money
12 would go directly to local programs, \$407 million as
13 basic field grants, \$5 million as technology grants,
14 and \$1 million as loan repayment assistance to help
15 recruit and retain legal aid lawyers.

16 As to where we currently stand, on June 11th
17 the Subcommittee on Commerce, Justice and Science of
18 the House Committee on Appropriations voted out their
19 appropriations bill for fiscal year 2008 with a \$28
20 million increase for the Legal Services Corporation.
21 This would represent an 8 percent increase for LSC over
22 FY 2007, and a \$50 million increase over the last two

1 years.

2 While lower than our request, this is an
3 excellent number in the current context of
4 appropriations in Washington. The full House
5 Appropriations Committee acted favorably on the bill on
6 July 12th, and the House passed H.R. 3093 on Thursday,
7 July 26th.

8 Even better news has come from the Senate. On
9 Thursday, June 28th, the Senate Appropriations
10 Committee approved a \$41.4 million, or a 12 percent,
11 increase for LSC, for a total of \$390 million. That
12 bill has been reported out to the full Senate as
13 S. 1745. Floor action in the Senate is not expected
14 until possibly as late as October, making a very late
15 conference or another omnibus bill entirely possible.

16 I'll be happy to answer any questions,
17 Mr. Chairman, you all might have.

18 CHAIRMAN McKAY: Well, I'll begin by saying
19 that your approach this first quarter on the job has
20 been quite successful. My first question is: What are
21 you going to do for us next quarter?

22 (Laughter.)

1 MR. CONSTANCE: Well, Congress and I have many
2 good plans ahead, I would hope.

3 CHAIRMAN McKAY: Very good. Thanks for your
4 report.

5 Questions or comments from the board or the
6 committee?

7 (No response.)

8 CHAIRMAN McKAY: Thank you very much.

9 MR. CONSTANCE: Thank you.

10 CHAIRMAN McKAY: Next item is consider and act
11 on adoption of fiscal year 2008 temporary operating
12 authority, effective October 1. Who's going to take
13 the lead on that?

14 MR. RICHARDSON: I will. Page 139 of your
15 board book is a memorandum requesting temporary
16 operating authority. This is the last scheduled
17 meeting prior to October 1, when we begin the new
18 fiscal year.

19 So what I have done is I've provided you a
20 resolution asking for temporary operating authority.
21 And then we will come back to you in October at our
22 next scheduled meeting with the temporary operating

1 budget for the year.

2 This temporary operating authority is on the
3 budget that is currently in place, without the
4 Commerce -- excuse me, the State Justice Institute
5 money. So we're basically asking to approve a
6 temporary operating authority on a basis of \$353
7 million. And there is a resolution, and attached to
8 that with the breakdown on page 140.

9 CHAIRMAN MCKAY: Questions or comments? Tom?

10 MR. MEITES: I know I shouldn't ask this. If
11 Congress hasn't appropriated the money for the next
12 fiscal year, what are we writing our checks against?

13 MR. RICHARDSON: They have to appropriate
14 something. Usually they do that with a continuing
15 resolution.

16 MR. MEITES: So there is money in the bank to
17 write checks?

18 MR. RICHARDSON: So there is money coming in,
19 yes.

20 MR. MEITES: That's my question. It's
21 answered. THANK YOU.

22 CHAIRMAN MCKAY: Any other questions? Herb

1 and Sarah.

2 MR. GARTEN: Just confirm this: The
3 resolution is identical to the final one we approved
4 the prior year. Is that right?

5 MR. RICHARDSON: That is correct, sir.

6 CHAIRMAN McKAY: Sarah.

7 MS. SINGLETON: Is there anything we can do to
8 take into account the State Justice Institute money?

9 MR. RICHARDSON: That money we -- the
10 reason -- two reasons I wouldn't include it. I
11 wouldn't have modified this because we're hoping to
12 award that money and provide it September. And then of
13 course we wouldn't have new money from State Justice if
14 that occurs until next June or July.

15 MS. SINGLETON: So this resolution doesn't
16 need to consider it?

17 MR. RICHARDSON: It does not.

18 CHAIRMAN McKAY: Any other questions?

19 M O T I O N

20 MS. SINGLETON: I move we recommend to the
21 board that they adopt the continuing -- or the
22 resolution.

1 MR. GARTEN: Second.

2 CHAIRMAN McKAY: Any other discussion?

3 (No response.)

4 CHAIRMAN McKAY: All those in favor say aye.

5 (A chorus of ayes.)

6 CHAIRMAN McKAY: Opposed?

7 (No response.)

8 CHAIRMAN McKAY: Thank you.

9 Item No. 12, report on Equal Justice Magazine
10 expenses and future plans. Mr. Constance.

11 MR. CONSTANCE: Thank you, Mr. Chairman. I
12 would direct your attention to page 142 of the board
13 book, memorandum from David Richardson to Michael McKay
14 dated July 12th. David has complied with the board
15 request and provided cost data on the production of
16 Equal Justice Magazine. Let me just summarize a couple
17 highlights of that.

18 It shows ten issues published between 2002 and
19 2006, and an average production cost of approximately
20 \$29,000 per issue. I would note, and as Dave notes in
21 his narrative, that this does not include personnel
22 costs, costs that were only tracked for one year, 2003,

1 with the hope that advertising revenue could make the
2 magazine a break-even proposition. In that year, the
3 total cost for three issues was \$232,544. I would say
4 that that cost tracks with my experience as a magazine
5 publisher in two previous positions I've had in my
6 career.

7 I also had a meeting yesterday, just an
8 information meeting, with the Bradford Group, the PR
9 firm that provides assistance to the program here in
10 Nashville, and in giving the parameters to their
11 principal as to a description of the magazine, a
12 description of the production, and a description of the
13 numbers, I asked him, what would you estimate that
14 would cost on an annual basis? And without batting an
15 eye, he said, "Between 2- and \$300,000." So this is
16 well within -- the numbers that are on the table here
17 are well within my experience, as confirmed by that
18 conversation as well.

19 I know that there is continued interest in not
20 just the history of the magazine but also its future.
21 I've spent a good portion of my 90 days on the job in a
22 data gathering mode. And let me give you some base

1 point facts.

2 We distributed approximately 12,000 copies of
3 the magazine per issue. The visibility and image of
4 this profession, this corporation, and LSC-funded
5 programs were doubtless increased by this magazine. I
6 don't think there's a question about that.

7 It would be an expensive proposition, however,
8 to determine by how much. I'd prefer to spend time,
9 and possibly some money, in the future looking at
10 audience going forward. But I can tell you this from
11 my experience: Writing and publishing a magazine,
12 selling advertising, promoting the magazine by external
13 means is a labor-intensive and costly proposition.

14 I understand that at various times in the life
15 of the magazine, up to five members of our staff were
16 spending a significant amount of their time in a
17 production mode. I would just observe I don't have
18 five people to devote most of all of their time to this
19 any more. I mean, I have -- my entire staff is five
20 people.

21 The good news is that we're living in a time
22 when more than more people are getting their

1 information from the internet, even information that
2 has traditionally, to those of us who dye our hair and
3 beards grey to look more distinguished, been used to
4 receiving via a magazine. There is even a name for it.
5 It's called an "ezine" in the current parlance. And
6 I'd note the following in that regard.

7 We currently get over 31,000 hits on our
8 website per day, and that translates to about 3500
9 visits, visits being someone spending time on our
10 website. So in four days, we have more visits than our
11 previous per-issue magazine circulation. And we know
12 that those 3500 visits are from people who come looking
13 for us, not vice versa.

14 Now, does that mean that we should, without
15 further examination, move to a magazine format on the
16 web? The honest answer for me is that I don't know,
17 but I'm going to find out. We're going to continue to
18 gather information while we improve and enhance LSC
19 updates as our prime communications device. We will
20 turn to ABA communications folks and others to help us
21 decide what's next. We will keep you fully informed as
22 we move to a decision. And by the way, we've reserved

1 the internet address EqualJustice.gov in the meantime
2 if an ezine does happen to be in our future.

3 I'd be happy to answer any questions.

4 CHAIRMAN McKAY: Questions or comments? Tom,
5 you initiated this. Do you have any questions or
6 comments?

7 MR. FUENTES: Well, I just am very pleased
8 with the input from John because I think this
9 really -- I felt that was the situation. Having been
10 in publishing myself for a good many years, I really do
11 think that we have to look at what is our bang for the
12 buck and what efforts are being done electronically
13 presently.

14 I've certainly had a dynamic, upbeat
15 impression of making an effort for LSC. So I think if
16 we can put this one to bed, we ought to.

17 MS. SINGLETON: So do you need a motion from
18 us with a recommendation?

19 CHAIRMAN McKAY: This is just information at
20 this point. You're certainly free to make a motion if
21 you'd like.

22 Any other questions or comments?

1 (No response.)

2 CHAIRMAN McKAY: Thanks for your very helpful
3 report, and to you, David, for your memo.

4 Item No. 13 is discussion regarding planning
5 for fiscal year 2009 budget. Charles?

6 MR. JEFFRESS: Mr. Chairman, if I could just
7 set the stage for this. The last two years, management
8 has developed a proposed budget request, which we have
9 presented to the Finance Committee in September. The
10 Finance Committee has modified that and then
11 recommended a budget mark to the full board.

12 At the last meeting there was some
13 discussion -- I think Mr. Fuentes may have led the
14 discussion -- about whether this committee or the board
15 wanted to be more involved or have a different process
16 this year, have more input before the management
17 recommendation came to the Finance Committee.

18 So that's the genesis of this agenda item for
19 you all to consider. Is the process we followed the
20 last two years satisfactory for you, or do you want any
21 additional steps in the process?

22 CHAIRMAN McKAY: Questions or comments? Tom?

1 MR. MEITES: On other not-for-profits I'm on,
2 the practice -- as well as this one, the practice is
3 for the staff to come up with the numbers to start
4 with. And I think it's worked till now. And unless
5 there's some -- you think it can be improved by doing
6 it otherwise, I'd be inclined to stick with what we've
7 been doing.

8 CHAIRMAN McKAY: I feel the same way. And as
9 you can see, the next item contemplates formalizing the
10 approach that we've taken. And that is planning on
11 having the Finance Committee meet annually in
12 September, as it has in the past Septembers, to
13 continue with this practice and look at what the staff
14 has come up with and approve it and move on, then have
15 the full board review it in October.

16 Other questions or comments? Shall we proceed
17 in that manner?

18 MR. MEITES: That's fine.

19 CHAIRMAN McKAY: Shall we move on to item 14,
20 which is considering and acting on having an annual
21 September meeting of the Finance Committee? I think
22 implicit in the committee's reaction is we should.

1 Will this require a motion? Maybe it should, that we
2 recommend it to the board that we --

3 MR. GARTEN: I'll make a motion.

4 CHAIRMAN McKAY: Please do.

5 M O T I O N

6 MR. GARTEN: That we continue the practice of
7 the Finance Committee having an annual September
8 meeting of the Finance Committee in order to report to
9 the board on its recommendations at the October
10 meeting.

11 CHAIRMAN McKAY: Second?

12 MS. SINGLETON: Second.

13 CHAIRMAN McKAY: Thank you. Discussion?
14 Further discussion?

15 MS. SINGLETON: I would just like to add it
16 should be calendared with our board meetings -- I mean,
17 at the same time that we get a calendar showing our
18 board meetings, that ought to be on the list.

19 CHAIRMAN McKAY: That's a great idea.
20 Obviously, we're going to need to have staff poll us
21 for this next one.

22 MS. SINGLETON: Right.

1 CHAIRMAN McKAY: But next time around, as we
2 plan -- well, we've pretty much locked in our schedule.
3 Maybe in October, at our October meeting, we can get
4 this date formalized for the following September.

5 Any other discussion?

6 (No response.)

7 CHAIRMAN McKAY: Vote on the motion, then.
8 All those in favor, say aye.

9 (A chorus of ayes.)

10 CHAIRMAN McKAY: Opposed?

11 (No response.)

12 CHAIRMAN McKAY: The motion passes.

13 Is there any other business to discuss? I'd
14 like to ask staff to -- I'm sure it's already noted,
15 but I want to make sure it's on the list, that we do
16 look forward to meeting with our outside auditor in
17 January. And I think it's been recommended that we
18 have that meeting, at least part of that meeting,
19 without management present. And I just want to make
20 sure that that's being scheduled with Ms. Davis or her
21 designee.

22 MS. SINGLETON: Is that the month you want it,

1 or do you want it earlier?

2 CHAIRMAN McKAY: I believe we're looking at
3 January. But if the committee wants to do it some
4 other time, that's fine.

5 MR. MERRYMAN: If I may approach?

6 CHAIRMAN McKAY: Sure.

7 MR. MERRYMAN: When I meet with Ms. Davis next
8 week, I will clarify that, just the dates and the time,
9 and make sure that gets before the committee so that
10 decisions can be made on meeting times and agenda
11 items.

12 CHAIRMAN McKAY: As long as that's all right
13 with the committee. I was thinking about January, but
14 obviously if we want to do it sooner, we can do that.
15 All right. Very good. Thank you.

16 Anything else? Thanks very much, Dutch.
17 Anything else?

18 (No response.)

19 CHAIRMAN McKAY: Is there any public comment?

20 (No response.)

21 CHAIRMAN McKAY: All right. Consider and act
22 on a motion of adjustment. Do I hear a motion to

1 adjourn?

2 M O T I O N

3 MS. SINGLETON: So move.

4 CHAIRMAN McKAY: Second?

5 MS. BeVIER: Second.

6 CHAIRMAN McKAY: All those in favor?

7 (A chorus of ayes.)

8 CHAIRMAN McKAY: Opposed?

9 (No response.)

10 CHAIRMAN McKAY: We are adjourned.

11 (Whereupon, at 2:37 p.m., the committee was

12 adjourned.)

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