

LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

FINANCE COMMITTEE

OPEN SESSION

Saturday, April 28, 2007

11:25 a.m.

The Peabody Hotel
Three Statehouse Plaza
Little Rock, Arkansas

COMMITTEE MEMBERS PRESENT:

Michael D. McKay, Chairman
Thomas A. Fuentes (via telephone)
Herbert S. Garten
Thomas R. Meites
Sarah Singleton
Frank B. Strickland

BOARD MEMBERS PRESENT:

Jonann C. Chiles
David Hall
Bernice Phillips

STAFF AND PUBLIC PRESENT:

Helaine M. Barnett, President
Victor M. Fortuno, Vice President for Legal
Affairs, General Counsel & Corporate
Secretary
Patricia Batie, Manager of Board Operations
Jean Carter, Center for Arkansas Legal Services
Mattie Cohan, Senior Assistant General Counsel
Thomas Coogan, Office of Inspector General (OIG)
Karen Dozier, Executive Assistant to the President
Joel Gallay, LSC OIG
Deborah Hankinson, American Bar Association
Charles Jeffress, Chief Administrative Officer
Carolyn Levensen, Student
Ronald D. Merryman, Assistant Inspector General
For Audits
Chalk S. Mitchell, Legal Aid of Arkansas
David L. Richardson, Treasurer and Comptroller
Karen Sarjeant, VP of Programs and Compliance
Dan Saunders, National Legal Aid & Defender Association
Julie Strandlie, Legislative Counsel, ABA
Laurie Tarantowicz, LSC OIG
Richard "Kirt" West, Inspector General

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MOTIONS: 4, 4, 16, 45

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

2 MR. MCKAY: We'll call to order the Finance
3 Committee. The first item on the agenda is approval of
4 the agenda. Do I hear a motion?

5 M O T I O N

6 MR. MEITES: So moved.

7 MR. GARTEN: Second.

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

9 (Chorus of ayes.)

10 MR. MCKAY: Opposed?

11 (No response.)

12 MR. MCKAY: The motion passes.

13 The second item is approval of the minutes of
14 the committee's meeting of January 20, 2007. Did
15 everyone have a chance to look at those minutes?

16 M O T I O N

17 MR. MEITES: I move that they be adopted.

18 MR. GARTEN: Second.

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

20 (Chorus of ayes.)

21 MR. MCKAY: Opposed?

22 (No response.)

1 MR. MCKAY: Motion passes.

2 The third item is a presentation by the
3 Inspector General of the fiscal year 2006 annual
4 financial audit. Gentlemen, please identify
5 yourselves.

6 MR. MERRYMAN: My name is Ronald Merryman. I
7 am the Assistant Inspector General for Audit for the
8 Office of the Inspector General.

9 MR. MCKAY: Thank you.

10 MR. RICHARDSON: And, for the record, I am
11 David Richardson. I am the treasurer of the
12 corporation.

13 MR. MCKAY: Thank you. Gentlemen?

14 MR. MERRYMAN: Unfortunately I am reporting to
15 the committee that the draft report of the audit has
16 not been released yet. The IPA or the firm is waiting
17 for a few more items of documentation. We are very
18 concerned about the situation because it seems to have
19 taken a lot longer than it should.

20 Some of the delay could be attributed to new
21 standards and implementing new standards, but as part
22 of our review of the IPA and the IPA work when we visit

1 on site, we will be finding out why the delays have
2 occurred like they have.

3 Management has been supplying all information
4 that has been requested of them as expeditiously as
5 possible. And the last items that were really being
6 waited for were some updated confirmation letters from
7 outside attorneys on the risk to the corporation.

8 There is no change in the findings that was
9 reported by Nancy Davis at the last meeting in January.

10 But we will be dissecting this process to understand
11 why it has taken so long to get those out.

12 MR. MCKAY: We would appreciate hearing about
13 that, because in rereading the reports, it seems every
14 month we were getting a letter -- a memo from your
15 office saying -- and of course we recognize this
16 problem is not with your office but you were dutifully
17 reporting to us that once again this month the report
18 is not available.

19 I'm particularly troubled that one of the
20 reasons might be that outside counsel are slow getting
21 the reports in to the auditors. Is that a fair
22 accusation -- characterization, not accusation -- yet.

1 MR. MERRYMAN: I would not characterize it as
2 that in that this is not an update of what was already
3 asked for. So they are asked, because of the delay in
4 the draft, the report being dated 1 March, they were
5 asked to update a period of time, like from the end of
6 December to the 1 March to make sure nothing has
7 occurred.

8 So we actually went back out to them, I
9 believe it was the middle of March, to request that
10 they update it, which is a redundant step in my mind.
11 We have already asked for it once, we've got to figure
12 out why things did not occur the way they should have
13 occurred, so we didn't have to repeat that step because
14 the report slipped. So I would not say that the
15 outside counsel is not being responsive.

16 MR. MCKAY: And I don't want to focus on this
17 too much, but you say it's redundant because they
18 already gave a report as of a certain date.

19 MR. MERRYMAN: Correct.

20 MR. MCKAY: And there is no need to give an
21 update because their report was prepared after that
22 date and there is no reason to update it?

1 MR. MERRYMAN: Well, the date of the report
2 slipped. So like for instance, the report was supposed
3 to be dated 31 December. Now it is 1 March. There is
4 a two-month period now that has to be accounted for.

5 MR. MCKAY: Why did the date slip?

6 MR. MERRYMAN: That's what we are going to
7 find out in our review.

8 MR. MCKAY: I see. Well, then, maybe it's
9 best if we just ask you to give us a report before the
10 July meeting and once we do get the report from these
11 folks with a report from you as to why this happened.

12 MR. MERRYMAN: We will do that, sir. We will
13 send you a written report on this.

14 MR. MCKAY: Thank you.

15 Mr. Richardson, anything from you?

16 MR. RICHARDSON: No, sir.

17 MR. MCKAY: Anything further on this?

18 (No response.)

19 MR. MCKAY: Anything from the committee?

20 (No response.)

21 MR. MCKAY: Thank you.

22 We'll move on to the next item. Consider and

1 act on adoption of the consolidated operating budget
2 for fiscal year 2007 and recommend resolution 2007-004
3 to the Full Board.

4 Mr. Richardson.

5 MR. RICHARDSON: Okay, in your board book,
6 page 169, there is a memo in regards to the
7 consolidated operating budget. In January, you passed
8 a temporary operating budget for the year. And during
9 the interim, we were able to report to you with our
10 January financial reports after the January board
11 meeting, of course, that we received a \$22 million
12 increase in our appropriation.

13 There is a chart in the middle of the page
14 that shows where the increases occurred. For example,
15 \$20,500,000 in basic field, 865 in the technology,
16 81,000 in the management and administration and 463 in
17 inspector general.

18 In addition to those increases in our
19 appropriation, we also are receiving \$12,600 additional
20 money from --

21 MR. MCKAY: Tom, I'm sorry, I guess you were
22 disconnected. You're back with us. Sorry for the --

1 MR. FUENTES: Have you started the meeting?

2 MR. MCKAY: We have. We've just started and
3 we've approved the agenda, we approved the minutes.

4 We just received a very brief presentation
5 from the Inspector General's office concerning the
6 fiscal year 2006 annual financial audit, which has not
7 yet been completed. And without burdening you with the
8 minutiae, we've asked the IG to go back and get that
9 audit, ask the auditor to complete it, get it to us
10 forthwith. But also prepare for us a report explaining
11 why there has been this delay.

12 We're now on item four of the agenda and Mr.
13 Richardson just began his presentation and is
14 essentially summarizing his memorandum which begins at
15 page 169 of the board book.

16 MR. FUENTES: Thank you very much.

17 MR. MCKAY: Thank you.

18 MR. FUENTES: You're now a little bit in a
19 tunnel, so if we can just move to the mic, I will be
20 grateful.

21 MR. MCKAY: We will do that. And if you could
22 remind us, I will do my best to remind everyone as

1 well.

2 MR. RICHARDSON: Okay, with the increases in
3 funding, we are able to come to you and ask for this
4 consolidated operating budget to be approved. The
5 temporary operating budget was \$331,270,000.

6 With the additional increase in our
7 appropriation, the U.S. Court of Veterans Appeals, we
8 are now coming to you with a budget of \$353,282,796.

9 In addition to presenting this budget to you,
10 this meeting also coincides with our five-month --

11 MR. FUENTES: Could you speak up, please?

12 MR. RICHARDSON: Sure.

13 This meeting also coincides with the review of
14 expenditures through February and any adjustments that
15 are needed to the budget. And this, of course, is
16 required through the budget guidelines that was just
17 passed at the January 7th -- or January '07 meeting.

18 Page 2 of this memorandum, which is on page
19 170, details the changes in the increase that we
20 received. We received, of course, the \$81,000 in
21 management administration. 20,000 of that went to
22 human resources, and that's to help with the

1 advertising of the open positions that we currently
2 have. And \$61,800 was added to the contingency. We
3 don't have plans at this point for spending that, but
4 that's sort of an emergency fund the president has
5 access to, to be able to delve into, to handle
6 emergency situations within management and
7 administration.

8 There are adjustments in the Office of Legal
9 Affairs that are handled within the budget. For
10 instance, because of the hiring of temporary employees
11 while we have the open positions and we're simply
12 moving \$25,000 of the personnel compensation and
13 benefits to temporary employee pay to accommodate those
14 hires.

15 In the Office of Program Performance, there is
16 a similar change. There is basically \$115,000 in
17 lapsed personnel compensation and benefits that we're
18 using to support temporary employee pay, consulting,
19 travel, occupancy costs and those other operating costs
20 of the office.

21 On April 3, you received a memo from the
22 Inspector General. The Inspector General, of course,

1 received a \$463,000 increase in his appropriation this
2 year. He has presented to you a two-year plan for
3 spending that money. And then there are also some
4 adjustments in his line, his budget line. You'll note
5 that the personnel compensation and benefits went up
6 515,000, certainly more than the appropriation
7 increase, and he's able to do that by reducing
8 temporary employee pay and then he also made some
9 increases in travel and communications and consulting.

10 That's my report, sir. What we would like to
11 do is ask that we turn -- I'd be glad to answer any
12 questions. But, basically, the resolution is on page
13 176 and we -- management asks that you approve that
14 resolution which summarizes with the numbers the report
15 that I've just given.

16 MR. MCKAY: Thank you very much and we will
17 get to the committee in just a minute. And thanks for
18 your report, thanks for your very good memorandum.

19 In the future, and I will address this more
20 under item 6 of the agenda, but in the future, I'm
21 wondering if -- I'm thinking it would certainly be more
22 helpful for me, as a member of the committee, I suspect

1 it would be for other members of the committee and the
2 rest of the board, if you could give us a more detailed
3 memorandum that sets forth in more detail the
4 information that you had in the memo that you have just
5 referenced, starting at page 169.

6 And I use as an example the memo that you
7 handed me at the last meeting in January. It's your
8 memorandum dated January 18, 2007. Do you know which
9 one I'm talking about?

10 MR. RICHARDSON: Yes, sir, I do.

11 MR. MCKAY: And when I reread that, I'm
12 reminded how helpful that memo was in discussing the
13 temporary operating budget. And it seems to me that it
14 would be helpful for us as a committee if we had a memo
15 of that kind of detail. And so I would ask for that
16 and I'll address this issue in a little more detail in
17 item 6 of the agenda.

18 Are there any questions or comments?

19 Mr. Meites?

20 MR. MEITES: I am sure I have asked this
21 question before, and I am sure I should have remembered
22 the answer. If the final funding is \$348 million,

1 roughly, 500,000, how are we able to budget
2 \$353,280,000? Or, to put it another way, where is the
3 other \$5 million coming from?

4 MR. RICHARDSON: Okay, on page 176 in the
5 resolution, the first thing that's added to this is the
6 \$1,260,000 for the U.S. Court of Veterans Appeals. We
7 added to that a projection of interest for 2007 and
8 then we have our carryover figures from basic field,
9 152,000, 28,000 from the U.S. Court of Veterans
10 Appeals, \$228,799 from the grants from other funds, and
11 then we have \$14,700 from the technology initiative.
12 Management and Administration's carryover last year was
13 \$2.15 million and we had \$997,000 remaining from the
14 LRAP program that had not been spent at that time or
15 had not been expensed at that point, and then the
16 384,000 carryover for the Inspector General.

17 MR. MEITES: Along the lines of what Mike just
18 proposed, it would be helpful for me if you enclose a
19 little table with that reconciliation as part of your
20 regular report, showing how we get from the
21 appropriation to the amount we've budgeted.

22 MR. RICHARDSON: Fine, sir.

1 MR. MCKAY: Thank you.

2 Any other questions or comments?

3 Sarah?

4 MS. SINGLETON: I was going to make a motion
5 if that's in order.

6 MR. MCKAY: Sure, unless there are any other -
7 - well, go ahead.

8 M O T I O N

9 MS. SINGLETON: I move that we recommend that
10 the board adopt the resolution, number 2007-004.

11 MR. MCKAY: Second?

12 MR. FUENTES: Second.

13 MR. MCKAY: Any other discussion?

14 (No response.)

15 MR. MCKAY: It's time for a vote. All those
16 in favor of the resolution, say aye.

17 (Chorus of ayes.)

18 MR. MCKAY: Opposed?

19 (No response.)

20 MR. MCKAY: Passes unanimously, thank you.

21 Item 5 on the agenda is a presentation on
22 LSC's financial reports for the first six months of

1 fiscal year 2007. We'd ask Mr. West to approach the
2 table and, for the record, Mr. Jeffress is already
3 there.

4 Welcome to you both.

5 Mr. Richardson.

6 MR. RICHARDSON: The report that is before you
7 is dated April 19th. It was sent out by fax, I think
8 it was Monday of this week, to each of you. I hope
9 you've had an opportunity to see that.

10 Basically what I have done is, knowing that we
11 were presenting this consolidated operating budget to
12 you, I've sort of taken the liberty of comparing our
13 expenses to the budget that you just passed. I think
14 it's a more meaningful report to do that.

15 The spending is well within line and within
16 budget. It's what we expected.

17 The basic field component, we have a variance
18 of amount not spent thus far this year of \$6,300,000.
19 That is because of the two grantees that are short-term
20 funded and that is CRLA, California Rural Legal
21 Assistance, and the UU&I that we have been discussing
22 with you in the past.

1 In addition to that, we have -- our Court of
2 Veterans Appeals grant has been made. It was made just
3 this month after we received the funding, so we have a
4 small amount that helps with the administration this
5 year. And anything that is not used in administering
6 the grant, that is as far as any oversight, will be
7 used to help support next year's grant.

8 The grants from other funds, there is money
9 available. We certainly had some money that we used
10 for special emergency grants in the last year, and this
11 year we have not made grants from that line. So there
12 are certainly occasions where we, in the past, give
13 those grants. The last grants that were given were to
14 help with Katrina. And that money remains available
15 for any type of circumstances and increase as far as
16 special emergency along those lines.

17 The technology grants, there's a small amount
18 expensed this year. When we got the grants in
19 September, we accrued those and the contracts, many of
20 them were already in place. One amount was modified
21 after we got the totals. It was increased \$5,995, and
22 that is the amount of the expense that you see there.

1 It's an increase in last year's award that was
2 contemplated at that time.

3 The rest of the money, the 2.1 in technology,
4 again, we hope to follow the same pattern. They are in
5 the process of competing the grants now. As you heard
6 yesterday, Arkansas is one that has submitted a letter
7 of intent to receive some of those monies to continue
8 their good work in technology. And there are other
9 grants that will be made, hopefully before September,
10 the end of the year, much like they were this year.

11 Within management administration, we currently
12 have an amount of \$855,000 that we're under budget. We
13 spent \$116,000 more than last year. And I've compared
14 that to February, which shows that we were under budget
15 746,000. 40,900 of that is because of the increase in
16 appropriation. So when you look at comparisons, you
17 might look at, if we were going on the old budget, it
18 would be 814,000 versus the 746 that was underspent in
19 February.

20 The loan assistance program, I call to your
21 attention that we have forgiven 69 of the loans that
22 were given last year and that totaled \$201,600. We've

1 given so far this year \$238,500. There is additional
2 grants or recipients that will be giving or getting
3 LRAP money this year. We actually got some just last
4 week -- should say this week -- it was after the close
5 of this accounting period and after we produced the
6 report, so that will increase slightly.

7 With the Inspector General, there is an amount
8 of \$486,000 under budget. I think the key figure here
9 is that they are spending 431,000 less than last year
10 and that's because of some open positions. 231,000 of
11 the \$486,000 under budget is attributed to the increase
12 in the appropriation. The memo that Mr. West gave you
13 and I will back off and let him speak to that, but it
14 presented a two-year spending plan for his money.

15 MR. MCKAY: Thank you. Mr. West.

16 MR. WEST: Thank you, Mr. Chairman.

17 I have prepared a memo for you dated April 3,
18 2007, it's on page 173 of the board book. I did that
19 because I was not expecting the additional funds that
20 we ended up getting and I sat down with Mr. Richardson
21 and tried to come up with what would be sort of a
22 prudent spending plan, knowing that if I tried to spend

1 -- you know, keep my carryover the same amount as last
2 year, I would do a lot of spending this year and be in
3 the position of -- if I did massive hiring, I would
4 have to do a massive layoff next year.

5 So I tried to do what would be like an 18-
6 month spending plan. I have discussed this with
7 Appropriations staff in Congress, who they think it's a
8 sensible way to deal with it. So that as we increase
9 our staffing, we're doing it at such a rate that when I
10 look down the road on September 30 of 2008, that
11 assuming sort of a -- either the same amount of money
12 or just a very small increase that I asked for in the
13 2008 budget request that we have sufficient funds at
14 that point to carry on operations.

15 I am very sensitive to overstaffing and then
16 you have money this year and you don't have money next
17 year, so that was my purpose for providing that
18 information, because I anticipate when you see my
19 carryover figure at the end of this year, it's going to
20 be significantly larger than it was last year, and
21 that's because of having all this money and having only
22 half a year to spend it.

1 I will be working with Mr. Richardson on an
2 ongoing basis to update the figures, update the
3 projections to make sure that the budget is being --
4 I'm being fiscally responsible in terms of how I'm
5 managing my money and I'm not putting, you know, new
6 hires in jeopardy of losing their job, but that I'm
7 spending adequately and that my hiring plans make
8 sense.

9 I would like to comment Mr. Richardson for
10 doing this. As I think you may know, Dave Maddox who
11 usually does this work for me is having some family-
12 related health issues and is only working part time and
13 is just unable to do this and Mr. Richardson has
14 volunteered and has been of great assistance working
15 with me to work out these projections.

16 MR. MCKAY: Well, we also applaud you for
17 turning to Mr. Richardson. It is that kind of
18 collegial relationship that we really admire and
19 applaud and thought that that was a very smart move on
20 your part as well. Thank you.

21 Mr. Jeffress, do you have anything you'd like
22 to add, and then we'll open it up for questions.

1 MR. JEFFRESS: Thank you, Mr. Chairman.

2 MR. FUENTES: Before we move on, could I ask a
3 question?

4 MR. MCKAY: Absolutely.

5 MR. FUENTES: I wanted to get a little further
6 comment out of David, if we could, on the carryover
7 point there. I wonder if we could illuminate his
8 overall perspective on where we're going and give us a
9 little more insight?

10 MR. MCKAY: Is that regarding the carryover of
11 the IG's budget?

12 MR. FUENTES: No, the general budget.

13 MR. MCKAY: General budget. Thank you.

14 MR. RICHARDSON: Certainly within Management
15 and Administration, we currently have the variance of
16 \$855,000. We still have a number of positions that are
17 open, so we do anticipate that will increase the amount
18 that will be shown as carryover during the end of the
19 year. We have \$900,000 that we've set aside from the
20 2006 carryover to help support 2008. And while we
21 didn't do a projection this -- for this reporting
22 period, we're probably looking in the neighborhood of

1 1.2, 1.3 carryover additional from this budget. If
2 everybody's spending goes to plans.

3 MR. MCKAY: Thank you.

4 Mr. Jeffress.

5 MR. JEFFRESS: Thank you, Mr. Chairman. Mr.
6 Fuentes's question anticipated my comment which was on
7 the rate of spending, that there have been five hires
8 in the last month which will increase our rate of
9 spending somewhat. So the \$855,000 that is currently
10 carried forward through six months will not be doubled.

11 As you just heard David say, more like a 1.2 with be a
12 projection for the end of the year, although that is a
13 back-of-the-envelope kind of projection at this point.

14 We do have five positions being advertised we expect
15 to be filled in the next couple of months, so that will
16 increase our rate of spending and keep the carryforward
17 from being twice what you see at the end of six months.

18 MR. MCKAY: Thank you.

19 Any other questions or comments from the
20 committee?

21 MR. FUENTES: I had one other, Mike, if I may?

22 MR. MCKAY: Absolutely.

1 MR. FUENTES: I am curious to get a little
2 insight further on where we are on the publication of
3 the magazine. Presently, we've been receiving the fine
4 e-mail updates and I imagine that must be far less
5 expensive than publication of the magazine. I'm just
6 not sure where we are on that.

7 MR. MCKAY: Charles?

8 MR. JEFFRESS: This is Charles Jeffress, Tom.
9 The last issue of the magazine, as you note,
10 was published in January of last year and it has not
11 been published since. During the last year, we were
12 evaluating the value of that publication and the
13 audience for that publication and where we should go
14 with that publication. We've had two discussions at
15 the executive team level. We've had one discussion
16 where we invited in outside folks to assist us to
17 evaluate our communications strategy and we plan to
18 have another discussion with John Constance next month
19 on the communications strategy and the place of the
20 magazine in that communications function. So at the
21 moment, it is not being published. But we have not
22 made a decision to cease publication. We will have

1 this discussion next month and be back to the board
2 about our broader communications plan after that
3 meeting.

4 MR. FUENTES: So in terms of budget
5 preparation, have we made the reduction anticipating
6 noncontinuation? Or are we still funding it or still
7 budgeting for continuation? Where are we on that?

8 MR. JEFFRESS: We budgeted for \$60,000 in the
9 Government Relations and Public Affairs Office for that
10 magazine for the year. I'm getting David to check to
11 make sure in the last revision that we didn't modify
12 that. But that money is there for whatever
13 communications vehicles we adopt.

14 David, can you check the number?

15 MR. FUENTES: Well, I don't know where is more
16 appropriate, whether it's in this committee or in
17 another committee or before the full board, but I think
18 maybe some board input and discussion would be
19 worthwhile on that topic. I have always thought it was
20 an extravagant expenditure and felt that the
21 publication was not bang for the buck. And I would
22 like a full input from the board to management at some

1 point on that. And maybe we could make a
2 recommendation of agenda-izing that at the appropriate
3 place.

4 MR. MCKAY: Well, that's a good point. It
5 sounds to me like management is working on that and
6 perhaps we ought to make sure that issue is placed on
7 the agenda somewhere at the July meeting. And where
8 would that be?

9 MR. MEITES: Your committee.

10 MR. MCKAY: Let's make sure it's on the
11 finance committee agenda in July. Does that sound all
12 right for you, Tom?

13 MR. FUENTES: That's fine, just so we have it
14 on our agenda to put it on the agenda.

15 MR. MCKAY: It's refreshing to have the
16 Operations and Regulations Committee give us something.

17 Any other questions or comments?

18 MR. JEFFRESS: Mr. Chairman, I might make one
19 note. Also in your book following the financial
20 reports, page 178, is a report on the final travel
21 changes. At your last committee meeting, we had not
22 finalized the changes that we're making to our travel

1 policies. We were still evaluating the issue of how we
2 handled tips. We did make the final decision, made the
3 change in the administrative manual, issued the
4 instructions to staff the 2nd of March. You had asked
5 that we provide you with what the final was and that's
6 contained in the report book.

7 MR. MCKAY: Thanks so much. One other thing
8 we asked for in January, I thought we asked for, since
9 it was raised by Ms. Davis, this question of the proper
10 accounting principle. That is, is it FASB or GASB?
11 And I thought we were going to get a report on that. I
12 don't recall seeing it. Where are we on that issue?

13 MR. RICHARDSON: Dutch and I have discussed
14 that and that's one of the issues when we sit down with
15 the auditors that we are going to discuss as to which
16 would be the better format for our particular reports.

17 I know that she has talked -- Nancy has talked to many
18 of the board members and she is aware that there is a
19 question there as to which is the best reporting
20 mechanism for us. And we will get back with you, with
21 the audit report in July.

22 MR. MCKAY: I have to tell you, I thought we

1 were going to get something this time. And right now,
2 she is saying one way -- is she saying it ought to be
3 GASB? I've forgotten who has taken what position. We
4 have differing positions.

5 I thought I was simply asking for from your
6 office why it is we are going one way and why we chose
7 to go that way?

8 MR. RICHARDSON: The prior board delegated
9 that decision to the Inspector General's office. And
10 when M.D. Oppenheim, our current auditors, came on and
11 even before, there was a decision made to go to state
12 and local government in reporting. I questioned it at
13 that time, and the then Inspector General, Mr.
14 Quatrevaux, said this is the way that we're going to
15 report it and he reported to the board in such a
16 fashion and it was not questioned.

17 But we are going to address it again to make
18 sure we're following the proper reporting procedure. I
19 actually do not think it's appropriate, we did not do
20 it prior to I think it was '98 or '99 when that
21 decision was made. But we did follow FASB at that
22 point and it was changed after that.

1 MR. MCKAY: So we are following GASB now?

2 MR. RICHARDSON: That's correct.

3 MR. MCKAY: And you disagree with that?

4 MR. RICHARDSON: I think it should be FASB.

5 Yes, I do disagree.

6 MR. MCKAY: So you are going through a process
7 now to come back to us with a recommendation. I am
8 assuming it's a recommendation, because ultimately it's
9 our call, isn't it?

10 MR. RICHARDSON: That is correct.

11 MR. MCKAY: All right.

12 Yes, sir?

13 MR. FUENTES: Mr. Chairman?

14 MR. MCKAY: Mr. Fuentes.

15 MR. FUENTES: Just before we go away from that
16 magazine discussion, which we have, I wonder if we
17 could ask the treasurer to give the Finance Committee a
18 spreadsheet from the inception of that magazine to
19 current time, in terms of what was budgeted and what
20 was spent through the years. I think that whatever
21 input that we are going to give to the discussion and
22 whichever appropriate format -- forum is determined, it

1 would benefit us to have concretely on paper numbers to
2 look at, say four or five years back or three years
3 back, whatever the length of it is, what was budgeted
4 and what was spent, et cetera.

5 MR. MCKAY: And how far back would you like
6 him to go?

7 MR. FUENTES: How old is the magazine now?

8 MR. MCKAY: Four years.

9 MR. RICHARDSON: I can provide the information
10 that we currently have to you in memorandum at the next
11 meeting or before.

12 MR. MCKAY: Well, then as far back as it goes,
13 and you'll give us the information that he's asked for
14 and put it in the board book.

15 MR. RICHARDSON: Okay.

16 MR. MCKAY: Thank you.

17 Is that okay, Tom? Tom, are you still with
18 us?

19 MR. FUENTES: Yes. Thank you.

20 MR. MCKAY: All right, very good.

21 Back to GASB versus FASB. And we're really
22 running short on time. I guess what I would like to do

1 is figure out briefly where are we and what do you
2 propose for the July meeting?

3 MR. MERRYMAN: Dave and I will continue the
4 discussion on the surface. I agree with David that
5 FASB would be the governing accounting standards that
6 we should be using. I do not know the history. The
7 history is not documented that I can find. And barring
8 anything -- we will report back to you as soon as we
9 can on that.

10 MR. MCKAY: Thank you. And I guess, that
11 being the case, it seems to me we should have been
12 hearing this today rather than waiting another three
13 months. But let's get on this, particularly if IGO and
14 our comptroller are in agreement that the standards we
15 are employing are improper, that we ought to be really
16 cracking on this.

17 So let's make sure this is on the agenda and
18 we get a memorandum well ahead of time so we can take a
19 look at it and think it through.

20 MS. SINGLETON: Mr. Chairman, I have a
21 question on the travel policy memorandum. For
22 clarification, the part on tips, it says drivers. Does

1 the -- the \$3 allowance apply to taxi tips?

2 MR. JEFFRESS: No, taxis are under
3 transportation, not under per diem, so the taxi driver
4 tips are --

5 MS. SINGLETON: So when it says drivers here,
6 who is that talking about?

7 MR. JEFFRESS: The driver from the airport to
8 the hotel, when you came to this meeting for instance.

9 MS. SINGLETON: That was a taxi driver.

10 MR. JEFFRESS: Okay, I came on the shuttle.

11 MS. SINGLETON: So if it's a multiple person
12 driver, he's within your \$2? Is that the distinction?

13 MR. JEFFRESS: If it is a taxi, there is a
14 separate provision for reimbursement of taxis. If it
15 is in fact a courtesy van where there is not a charge
16 to you, it's within your incidentals.

17 MS. SINGLETON: Thank you.

18 MR. MCKAY: Herb.

19 MR. GARTEN: Has your independent outside
20 accountant given you any opinion on what to do?

21 MR. MCKAY: Could you repeat the question for
22 Tom, please?

1 MR. GARTEN: Has the independent outside
2 account gone into what to do here with respect to the
3 two systems?

4 MR. RICHARDSON: We have talked to Nancy
5 Davis, who is the engagement partner. She feels that
6 state and local government is the correct reporting
7 format. So we are going to have to talk with her
8 through that and see if we come to a resolution.

9 MR. GARTEN: All right, so you will report on
10 that also?

11 MR. RICHARDSON: Absolutely, it will be part
12 of the report.

13 MR. MCKAY: Anything further?

14 Thank you all, very much.

15 Actually, you two can stay for the next item
16 on the agenda which is financial reporting to the
17 finance committee. And you know, in the wake of
18 Sarbanes-Oxley, we as members of the board, but
19 particularly members of the Finance Committee, have to
20 be mindful of our responsibilities. And Director
21 Fuentes has played a leadership role in gently but
22 firmly reminding all of us of our responsibilities, not

1 just management but also members of the board and this
2 committee. And he and I have been working on this
3 issue between our two meetings, the January meeting and
4 this meeting.

5 And one of the issues that has troubled us or
6 we see as an issue is the fact that Mr. Richardson, who
7 should be reporting directly to this committee, is
8 sending his memoranda attachments to the financial
9 reports through Mr. Jeffress and President Barnett,
10 which is certainly not inappropriate, we don't mean to
11 suggest there is anything inappropriate going on. But
12 we thought it was important to fulfill our fiduciary
13 duties to make sure that there is nothing happening to
14 these numbers, to the reports and so forth. And I
15 have, you know, met with Mr. Richardson privately and
16 have received reassurances that we are getting the
17 straight scoop from him, never suspected otherwise for
18 the record. But I do think it's important that we have
19 that discussion every once in a while.

20 On the other hand, as I have continued to work
21 on this and review previous reports, I look at for
22 instance the memorandum I previously referenced, the

1 January 18, 2007, memo. Don't look for it because you
2 don't have it. It was given to me at the meeting in
3 January. I assumed everyone else on the committee had
4 received it but they had not.

5 So a couple of things. Number one,
6 henceforth, I want to make sure that it is automatic
7 that anything that is given to -- certainly within the
8 confines of the Finance Committee, any financial
9 documents given to me, I'm going to assume and I would
10 just like to receive reassurance that every member of
11 the board receives the same document.

12 I do like this memorandum and I've talked to
13 David about it and I mentioned it previously. I would
14 like us, realizing we're short on time, I just want to
15 report to the board that we're working on this, Mr.
16 Fuentes and I. We're going to continue to work on
17 this. I mean, we've talked to Charles and to Helaine
18 about this.

19 I would like to -- since Tom isn't here, I
20 would like to make sure that Tom is part of this, that
21 I'll work with Tom, work with management, come up with
22 something for the next meeting and I'll put it in

1 writing, copy all of you, so that I think we're going
2 to receive a little more detail in the information that
3 we receive, do a gut check with the committee at that
4 meeting, make sure you are comfortable with what we
5 have come up with and if you aren't, we'll change it.
6 If you're happy with it, we'll proceed in that manner.

7 But we're doing this, as I say, to make sure
8 we're fulfilling our obligations, our fiduciary duties,
9 and frankly making sure we get the information that we
10 need to fulfill our duties without being swamped with
11 too much information, which is an interesting and
12 important balance.

13 So I thought it was important enough to add it
14 to the agenda. Again, I thank Tom Fuentes for playing
15 a leadership role in keeping us focused on this
16 important issue. But I thought it was important we add
17 it to the agenda and discuss it. And it's really more
18 of a report from me to all of you, but I'd certainly
19 opened it up for questions or comments if there are
20 any.

21 MS. SINGLETON: Could you pass your memo
22 around, just so we could look at it?

1 MR. MCKAY: This one. Absolutely. And I'm
2 sorry, I only have one copy, but I'll do that right
3 now. I'll hand it your way first.

4 And what I will do, my plan is frankly to send
5 a letter to management which will have a copy of that
6 memo attached as an example of what we'd like to
7 receive in the future. So you'll see it. But you'll
8 be able to see it right now as well.

9 Anyway, that's my report. Any other questions
10 or comments?

11 Tom?

12 MR. FUENTES: Well, I just thank you very much
13 for staying on top of this, Mike, and for well
14 presenting this. And I appreciate that courtesy and
15 it's all of concern to me.

16 MR. MCKAY: Thank you.

17 MR. FUENTES: Thank you.

18 MR. MCKAY: Hearing no other questions or
19 comments, we'll move on to item 7, which is a report on
20 fiscal year 2008 appropriations process.

21 Mr. Jeffress?

22 MR. JEFFRESS: Thank you, Mr. Chairman. The

1 board approved the fiscal year 2008 budget request last
2 fall. We submitted it to the Congress in February.
3 And a full copy of that is available on our website
4 and, of course, all the members of the board have had
5 that.

6 The Appropriations Committee, the House
7 Appropriations Subcommittee held a hearing on March 29
8 on our appropriations request, at which Chairman
9 Strickland and President Barnett testified. There were
10 three members of the committee in attendance the full
11 time, and the ranking minority member, Mr. Fringheisen,
12 came in at the end of the meeting for a final comment.

13 The subcommittee on the House is deliberating
14 at this point. Expect the chairman of the subcommittee
15 to have a markup sometime late in May and the House to
16 act before the July 4th recess, is their announced
17 schedule.

18 On the Senate side they reported again the
19 request has been submitted to the Senate. The
20 congressional affairs staff at LSC has been meeting
21 with staffs of senators to explain the request. There
22 has been no hearing and will be no hearing for LSC in

1 the Senate and Senate action will follow House action,
2 likely not to occur until after the August recess,
3 likely to be September before we know what the Senate
4 mark will be.

5 But the request for the \$430 million is what
6 we are presenting to the committee and to members.
7 President Barnett has met with six members of the House
8 Appropriations Committee and we will seek additional
9 opportunities to meet with other members in the coming
10 months.

11 MR. MCKAY: Questions or comments? Tom?

12 MR. MEITES: How does the schedule you just
13 described compare with the schedule in prior years?

14 MR. JEFFRESS: Congress sometimes has
15 difficulty meeting the schedule it sets for itself.
16 This past year, of course, there was a continuing
17 resolution adopted because Congress did not pass their
18 appropriations bill and that continuing resolution
19 wasn't decided upon for the full year until February.
20 So it was -- instead of passing the final bill in
21 September as they had anticipated, it was five months
22 later.

1 It does vary. There are years where they do
2 complete their work on time and we have a budget by the
3 beginning of October. But I guess that's more the
4 exception than the rule. Typically, there will be a
5 continuing resolution in September and we will get our
6 final budget sometime between October and December.

7 MR. MEITES: Any sign so far about whether
8 they will do better than they have done in recent
9 years?

10 MR. JEFFRESS: Certainly, the announced intent
11 is better. There is a discussion of a discipline
12 within Congress to try to get the bills out on time.
13 But fiscal year '08 is going to be a very difficult
14 year because the Congress has readopted rules which
15 were in existence in the '90s which require any
16 increase in funding to be offset -- to be provided for
17 by increased revenues or offset by decrease somewhere
18 else. And those Pay-Go rules as they call them will
19 make it difficult, I think, to achieve agreement on the
20 budget. So I think it will be a very difficult budget
21 year.

22 MR. MCKAY: Any other questions or comments?

1 MR. FUENTES: I would offer a comment, Mike,
2 if I may. Because we are speaking about taking our
3 message to the Congress and our request to the Congress
4 and our liaison with the Hill for the lifeblood of the
5 organization, I mentioned earlier how impressed I am
6 with the quality of graphics, et cetera, of the LSC
7 Update.

8 But I am concerned that there is an imbalance
9 currently in this document that projects who we are.
10 And I am sure that this is one of the very important
11 faces of LSC on the Hill to both members and to staff.

12 And I think we have struggled hard in times past to
13 have a very bipartisan if not nonpartisan approach.
14 And I want to express as a member of the Finance
15 Committee, because I think it could actually impact how
16 our message for funding is received, that the public
17 projection in LSC Update be as balanced and bipartisan
18 and as nonpartisan as possible.

19 I think that the issue of April 25, '07, gives
20 me some concern and I would have the rest of the board
21 members please review that to understand the depths of
22 my concern. Thank you.

1 MR. MCKAY: Thank you.

2 Any other questions or comments?

3 (No response.)

4 MR. MCKAY: Thank you, Mr. Jeffress.

5 Next item, consider and act on other business.

6 I would ask, I think, Mr. Richardson a question about
7 a comment made by Ms. Davis at the meeting in January
8 relating to her recommendation that we approve --
9 improve accounting for fixed assets.

10 I'm wondering where we are on that? Have you
11 done anything and what's your game plan or response to
12 that recommendation?

13 MR. RICHARDSON: Let me back up a little bit
14 and respond with the recommendation that she made to me
15 privately last year. And that was that we increase our
16 capitalization limit to \$5,000. I told her I felt that
17 that was considerably too high since most of the time
18 we're dealing with computers and office equipment and
19 not the federal government limit where they're buying
20 cars and jet planes and everything needed in the
21 Defense Department.

22 This time, they come back and they have

1 recommended \$1,000 for the capitalization limit. I
2 have talked with staff internally and I have not yet
3 talked to the president or Charles about this, but the
4 -- I'm heading toward recommending that we use the
5 capitalization limit of \$750. And I think that would
6 alleviate some of the issues that she has.

7 In addition to that, she talked about that we
8 were using an Excel spreadsheet instead of the database
9 in the recording of our assets. And while she stated
10 that our recordkeeping was clean and accurate, she
11 would recommend a difference, a change.

12 MR. MCKAY: Let me interrupt you, and I'm
13 sorry to do this to you. This is an issue that was
14 raised by her. We are running short on time, and so I
15 don't think it's appropriate for us, particularly since
16 it isn't on the agenda, for us to go into detail.

17 I guess I would ask, unless I hear a concern
18 from a member of the committee, that you simply prepare
19 a memo for us for our next meeting which lists
20 essentially a summary of her concerns with regard to
21 our accounting for fixed assets and your response to
22 that. Instead of having you do it orally today.

1 I just want to make sure it's remaining on the
2 radar screen. And I guess, again, unless I hear a
3 concern from a member of the committee or anyone else
4 on the board, that you simply prepare a memo and we'll
5 put it on the agenda for the next meeting.

6 MR. RICHARDSON: Yes, sir.

7 MR. MCKAY: Questions or comments?

8 (No response.)

9 MR. MCKAY: Let's just do that if that's okay.

10 Thank you.

11 Is there any other business that the committee
12 would like to consider?

13 (No response.)

14 MR. MCKAY: Is there any public comment?

15 (No response.)

16 MR. MCKAY: Disappointed that the issues that
17 we've raised today has not stirred up the populace.
18 But that means we're going to get to lunch a little
19 quicker.

20 M O T I O N

21 MR. MCKAY: Do I hear a motion for
22 adjournment?

1 MR. FUENTES: So moved.

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

3 (Chorus of ayes.)

4 MR. MCKAY: Opposed?

5 (No response.)

6 MR. MCKAY: We are adjourned at 12:12.

7 (Whereupon, at 12:12 p.m., the meeting was
8 adjourned.)

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