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LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

MEETING OF THE
AUDIT COMMITTEE

Friday, October 31, 2008
2:05 p.m.

The Hilton Hotel
255 South West Temple
Salt Lake City, Utah

COMMITTEE MEMBERS PRESENT:

- Herbert S. Garten, Chairman
- Thomas R. Meites
- Jonann C. Chiles
- Frank B. Strickland, ex officio

OTHER BOARD MEMBERS PRESENT:

- Lillian R. BeVier
- Bernice Phillips-Jackson

1 STAFF AND PUBLIC PRESENT:

2 Victor M. Fortuno, Vice President for Legal Affairs,
General Counsel, and Corporate Secretary

3 David L. Richardson, Treasurer and Comptroller,
Office of Financial and Administrative Services

4 Patricia D. Batie, Manager of Board Operations

Charles Jeffress, Chief Administrative Officer

5 Jeffrey E. Schanz, Inspector General

Ronald "Dutch" Merryman, Assistant IG for Audits

6 Tom Coogan, Assistant IG for Investigations

Matthew Glover, Assistant Counsel, Office of the

7 Inspector General

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

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| 1 | . | Approval of agenda | 5 |
| 2 | . | Approval of minutes of the committee's meeting of August 1-2, 2008 | 5 |
| 3 | . | Report of the Inspector General on schedule for LSC's annual audit for FY 2008 | 6 |
| 4 | . | Discussion of alternatives for LSC fundraising | 8 |
| | p | Staff report | |
| 6 | . | Consider and act on the establishment of procedures for the receipt, retention, processing, and resolution of complaints or expressions of concern regarding accounting, internal controls, and auditing issues | |
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16 . Public comment 25

17 . Consider and act on other business 27

1 . Consider and act on adjournment of meeting 27

P R O C E E D I N G S

(2:05 p.m.)

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CHAIRMAN GARTEN: I'll call the meeting to order. And before asking for approval of the agenda, let's have a roll call of those who are here. And let's start with you, Jonann.

MS. CHILES: I am Jonann Chiles, member of the Audit Committee, present.

CHAIRMAN GARTEN: Tom?

MR. MEITES: Tom Meites, present.

MR. COOGAN: Tom Coogan, Office of the Inspector General.

MS. PERLE: Linda Perle, Center for Law and Social Policy.

MS. BATIE: Patricia Batie, Legal Services Corporation.

MR. MERRYMAN: Ronald Merryman, Office of the Inspector General.

MR. GLOVER: Matthew Glover, Office of the Inspector General.

MR. SCHANZ: Jeff Schanz, IG. And Tom, I did hand-carry that information for you.

1 MR. MEITES: Well, I'm just --

2 MR. SCHANZ: So who wants it? Since it's --

3 MR. MEITES: Well, I'm sure everyone wants it.

4 If you were to send it to me, I will find a member of
5 my staff who will insert it in the book.

6 MR. SCHANZ: Excellent. Thank you.

7 CHAIRMAN GARTEN: We have a three-person
8 committee who are all present in person or by
9 telephone. And you have before -- the committee people
10 have before them the approval of the agenda. And
11 before we start with it, I'd like to point out to you
12 that an amendment is necessary, and it's simple.

13 If you read the minutes of the Audit Committee
14 of Saturday, August 2, 2008, and I've already explained
15 it to Pat, they were inserted in the book incorrectly.
16 And we'll get that straightened out.

17 So I would ask for a motion to approve the
18 minutes of the committee's meetings of August 1 and 2,
19 with the correction noted. I have a motion?

20 M O T I O N

21 MS. CHILES: So moved.

22 CHAIRMAN GARTEN: Tom?

1 MR. MEITES: Seconded.

2 CHAIRMAN GARTEN: Okay. Ready to vote? All
3 in favor, aye.

4 (A chorus of ayes.)

5 CHAIRMAN GARTEN: All right. The motion
6 passes and the agenda as stated is approved subject to
7 that one amendment.

8 The next item of business is the report of the
9 Inspector General on the schedule for LSC's annual
10 audit for fiscal 2008. Jeff?

11 MR. SCHANZ: This is Jeff Schanz, the
12 inspector general. We had an entrance conference with
13 the corporate auditors at the same time we had the last
14 Audit Committee meeting in Washington, which was
15 October 14th. It was attended by members of the Audit
16 Committee that were present, in addition to management
17 representatives. And that served as the official
18 entrance conference to the corporate audit.

19 We have been working diligently since that
20 date. We've provided space for them. They did have an
21 interview with me on Monday -- the lead auditor had an
22 interview with me on Monday -- as to some of the things

1 I see as a inspector general. And I know they've been
2 dealing with corporate staff.

3 As of right now, everything seems to be on
4 point unless the assistant inspector general for audit
5 has anything to add.

6 MR. MERRYMAN: I do not. Progressing as
7 briefed at the board meeting. Started on time and are
8 working right through.

9 CHAIRMAN GARTEN: And in accordance with our
10 charter, the Audit Committee participated in this
11 event.

12 MR. SCHANZ: Correct.

13 CHAIRMAN GARTEN: And we had a full
14 explanation of the duties that Nancy Davis, our
15 independent outside auditor and her firm, would be
16 conducting. They clarified certain points. They gave
17 us their schedule.

18 And as chair of the Audit Committee, I want to
19 thank Jeff and his staff for being very cooperative,
20 and I believe that a very fine audit is underway. And
21 the committee, as charged by our charter, will continue
22 to keep abreast of what's going on, and in contact with

1 Jeff and also his staff and our independent CPA firm.

2 A formal agreement was entered into by Jeff
3 with the accountant, and an amendment to it was also
4 entered into. And this was in accordance with past
5 practices also.

6 Jeff, is there anything else you want to add?

7 MR. SCHANZ: No. I have been around corporate
8 auditors for some time, and these appear to be very,
9 very competent individuals, particularly based on the
10 interview that they conducted with me.

11 CHAIRMAN GARTEN: Okay. We'll move on to
12 agenda item 4, which is a discussion of alternatives
13 for LSC fundraising. And I presume that the staff
14 that's here -- and by the way, Bernice Phillips has
15 arrived, one of our board members. So Ms. Reporter,
16 would you please note that.

17 MS. PHILLIPS-JACKSON: Thank you.

18 CHAIRMAN GARTEN: Charles, have you got
19 anything you want to tell us?

20 MR. JEFFRESS: Mr. Chairman, I was not
21 scheduled to give the staff report. But I will tell
22 you of the last conversation that I'm aware of with

1 respect to this fundraising.

2 Board members had asked whether a charitable
3 arm of LSC might be established to conduct fundraising
4 rather than LSC doing it itself. Since Friends of LSC
5 already exists, for this conversation that might be an
6 appropriate group to do that, and Friends of LSC has in
7 their charter a provision that would allow them to do
8 such.

9 At the Friends of LSC board meeting three
10 weeks ago, this was discussed and there was a positive
11 reception to it. I can't say there's agreement yet. I
12 don't believe there's anything clearly being asked of
13 them yet. But in terms of, in principle, being willing
14 to do fundraising should it become necessary, the
15 Friends of LSC board was receptive to that
16 recommendation.

17 CHAIRMAN GARTEN: I had a discussion with our
18 chair, who indicates that he believes they're looking
19 favorably upon assisting us in this area. And I would
20 hope that by the time of our next board meeting, we
21 will have a report of the fact that they are willing to
22 take on this responsibility.

1 MR. MEITES: That's terrific news.

2 CHAIRMAN GARTEN: Well, it's not final, as I
3 understand it. But we've gotten some good indications.

4 MR. MEITES: I'm very pleased to hear that.

5 CHAIRMAN GARTEN: Yeah. And of course, the
6 Friends of LSC were there to help us. They help us get
7 the building. They helped us in other areas. And I'm
8 confident that they will come through. So we'll
9 expect --

10 MR. JEFFRESS: Well, Mr. Chairman, I'm not
11 sure that they will take it up again until there is an
12 official request from LSC to engage in such
13 fundraising. We haven't made an official request.
14 These were exploratory discussions.

15 CHAIRMAN GARTEN: All right. But there's an
16 indication that they would favorably consider a
17 request?

18 MR. JEFFRESS: Right. If and when LSC would
19 like to conduct fundraising, that would be the time, I
20 think, for us to go to Friends.

21 MR. MEITES: Well, Charles, would it be
22 appropriate at this point for the Audit Committee to

1 ask the board to make such a request? Or is that
2 premature?

3 MR. JEFFRESS: If the board --

4 CHAIRMAN GARTEN: Well, what I'm hearing is
5 they want to --

6 MR. JEFFRESS: Do you have a fundraising drive
7 at the moment?

8 MR. MEITES: No, no. But to accept the role
9 as our official fundraising arm.

10 CHAIRMAN GARTEN: I don't know whether they're
11 prepared to do that based upon what Charles has said.
12 It seems to me it's -- they would consider it in step
13 by step, case by case basis.

14 MR. MEITES: I thought that earlier the
15 board --

16 CHAIRMAN GARTEN: Is that what I'm hearing?

17 MR. JEFFRESS: Yes. We could not tell them
18 how much fundraising the board was interested in doing;
19 you know, what the amount of fundraising might be they
20 were seeking. And I think they wanted the option of
21 hearing what the proposal was and what specific needs
22 we had before they said yes to it. They didn't want to

1 sign a blank check, if you will, just to always do
2 fundraising for anything you guys wanted.

3 MR. MEITES: I understand that.

4 CHAIRMAN GARTEN: All right. Well, at
5 least -- I will not be present at the full board
6 meeting, and Jonann has agreed to report to the board
7 on the status of this. Do you have an questions?

8 MR. MEITES: Well, let me ask you this, then.
9 I or Charles -- I'm sorry. Are there any fundraising
10 opportunities or fundraising needs that you see in the
11 next three to six months?

12 MR. JEFFRESS: I'm not aware of any. I don't
13 believe the president or the executive team is aware of
14 any fundraising needs in the next six months.

15 CHAIRMAN GARTEN: But should one arise?

16 MR. JEFFRESS: Should one arise.

17 CHAIRMAN GARTEN: You will make request of
18 Friends, and hopefully the indications are that they
19 want to cooperate with us.

20 MR. JEFFRESS: They would. And it's very
21 clear that if a request is to be made, it's to come
22 from the board and not from the staff. I think the

1 board made that clear in the protocol.

2 MR. MEITES: Right.

3 MR. JEFFRESS: So should there be a need for
4 fundraising, it would come to the board first before it
5 would go to Friends.

6 CHAIRMAN GARTEN: All right. Does everybody
7 understand -- the committee understand where we are on
8 this issue?

9 MS. CHILES: Yes. I have one question for
10 Charles.

11 So if the board were to decide that a
12 fundraising need existed and we were to approach
13 Friends of Legal Services, their charter would allow
14 them to go forward?

15 MR. JEFFRESS: Yes. They, as a matter of
16 fact, have a provision specifically in the charter that
17 authorizes them to raise funds for LSC.

18 MS. CHILES: Would they need to do anything
19 other than amend -- well, they don't need to amend
20 their charter. Do they need to do anything else in
21 order to ask?

22 MR. JEFFRESS: They don't. As a matter of

1 fact, it would actually help them with their
2 documentation that they are a charitable organization
3 if they were to do so.

4 MS. CHILES: Well, perhaps we should help
5 them.

6 (Laughter.)

7 CHAIRMAN GARTEN: I might add that the
8 indications from our chair is that they have sufficient
9 funds and would not have to go with outside
10 solicitation.

11 MR. JEFFRESS: I think for -- the tone seemed
12 to be if you're looking for something small, like for a
13 congressional reception, they wouldn't need to solicit
14 anything else. They would take it from current income.
15 But depending on the size of the fundraising --

16 CHAIRMAN GARTEN: And the purpose, of course.

17 MR. JEFFRESS: Right. Right.

18 CHAIRMAN GARTEN: All right. Any other
19 questions by committee people?

20 MS. CHILES: No.

21 CHAIRMAN GARTEN: All right. Item 5, consider
22 and act on the establishment of procedures for the

1 receipt, retention, processing, and resolution of
2 complaints or expressions of concern regarding
3 accounting, internal controls, and auditing issues.

4 For the purposes of the committee, we did have
5 a memo from Vic Fortuno reminding us that there was an
6 employee handbook and reminding us that this in no way
7 would interfere with the duties and responsibilities of
8 the inspector general.

9 And we also had a recommendation from one of
10 our committee members that we consider -- if we are
11 going to make a recommendation to the board, that we
12 consider the possibility of setting up a separate
13 e-mail address for direct contact with us.

14 Now, I would like to point out to the board
15 that our charter does cover this in specific language
16 that I would like to read into the record.

17 (Pause)

18 MR. MEITES: Well?

19 CHAIRMAN GARTEN: Yes. I'm perusing the
20 charter. I have it noted, and now I'm looking for it.
21 Just bear with me.

22 (Pause)

1 CHAIRMAN GARTEN: All right. Item No. VIII,
2 Duties and Responsibilities, paragraph 9: "The
3 committee shall establish procedures for the receipt,
4 retention, and treatment of complaints or expressions
5 of concern regarding accounting, internal controls, and
6 auditing issues, and which procedures shall provide for
7 the anonymity and confidentiality of such
8 communications from employees."

9 Now, there obviously is overlapping areas
10 here. The language could be interpreted very broadly.
11 But that may be fine. And we also -- anything done in
12 this area, if voted upon by this committee and approved
13 by the board, would require an addition to the employee
14 handbook.

15 So it seems to me that if this committee
16 decides to make this recommendation to the board, that
17 it would be based upon -- and the board approves it, it
18 would be based upon your coming back with the language
19 for the employee handbook that would be appropriate and
20 cover the intent of this, including the setting up of a
21 separate e-mail account.

22 All right. Now, I'm ready for some comments

1 and discussion on the part of the committee.

2 MS. CHILES: I will comment.

3 CHAIRMAN GARTEN: Yes?

4 MS. CHILES: I think this is a very important
5 part of our Audit Committee charter. I think it is
6 incumbent upon us to move forward as quickly as we can
7 to change the employee handbook, if we need to do that,
8 and just set up the appropriate procedures so that the
9 Audit Committee can do its job as a part of this board
10 of Legal Services Corporation.

11 And I respect the fact that we're not
12 pretending that we have exclusive jurisdiction in this
13 area. We have concurrent jurisdiction with the
14 inspector general and -- who else? The inspector
15 general and --

16 MR. JEFFRESS: I think the grievance process
17 would be --

18 CHAIRMAN GARTEN: The grievance process, yes.

19 MS. CHILES: Yes. I just want to say I
20 recognize the fact that there are other persons and
21 entities who have responsibility in this area. And I
22 don't believe that the board's action will in any way

1 infringe upon the responsibilities and the roles of
2 those other persons and entities who have
3 responsibility in this area.

4 M O T I O N

5 MS. CHILES: But I would like to move forward
6 quickly, particularly with the e-mail address.

7 CHAIRMAN GARTEN: So I'll accept that -- we
8 could -- I'll accept --

9 MR. MEITES: Herb?

10 CHAIRMAN GARTEN: Yes?

11 MR. MEITES: What?

12 CHAIRMAN GARTEN: Yes. I need a --

13 MR. MEITES: What kind of mechanics are we
14 thinking about? And e-mail address? A mail address?
15 Who is going to run it? Are we going to run it or is
16 someone on the staff going to run it for us?

17 CHAIRMAN GARTEN: What I had in mind is we
18 would -- if we recommended it to the board and they
19 were in favor of it, it would be subject to setting up
20 the procedures. And also --

21 MR. MEITES: Your view is we should -- if any
22 of us agree, and I think we do, that this is a salutary

1 idea, that we get the board's authority and then we
2 figure out procedures and take them back to the board.

3 CHAIRMAN GARTEN: We could, and I think that
4 would be the proper way of doing it.

5 MR. JEFFRESS: I think the board has actually
6 given you the authority in the charter.

7 CHAIRMAN GARTEN: And as far as the employee
8 handbook, you would have a right to do it without going
9 to the board.

10 MR. JEFFRESS: The employee handbook, we can
11 make minor modifications to it without board approval.

12 CHAIRMAN GARTEN: That's what I'm saying.

13 MR. JEFFRESS: And this would be --

14 MR. MEITES: But Herb, since we already
15 apparently have it, maybe we'll just report to the
16 board we're going to go ahead and do it.

17 CHAIRMAN GARTEN: All right. Let's -- will
18 you accept that as moving forward?

19 MS. CHILES: Yes.

20 CHAIRMAN GARTEN: All right. Are you
21 seconding the motion?

22 MR. MEITES: Yes.

1 CHAIRMAN GARTEN: All right. Ready to vote?
2 Before we vote, one of the board members would like to
3 comment on it.

4 MS. PHILLIPS-JACKSON: I'm not a member of
5 this committee. But I feel that this procedure should
6 permit non-committee members to sit --

7 MR. MEITES: Bernice, you have to talk
8 directly into the microphone.

9 MS. PHILLIPS-JACKSON: I was just saying I'm
10 not a member of this committee, but I feel that this
11 procedure should involve non-committee members to sit
12 in on meetings and interviews unless the person who's
13 being interviewed objects to it.

14 Also, this procedure should allow board
15 members to be informed fully of the complaints or the
16 expressions of the concerns brought to the committee's
17 attention.

18 CHAIRMAN GARTEN: All right. We'll certainly
19 take that into consideration. But for purposes of the
20 motion and the second, are you ready to vote, Tom?

21 MR. MEITES: Yes.

22 CHAIRMAN GARTEN: Are you ready to vote?

1 MS. CHILES: I am.

2 CHAIRMAN GARTEN: All right. All in favor,
3 aye, please.

4 (A chorus of ayes.)

5 CHAIRMAN GARTEN: Okay. So Jonann, you'll
6 present this to the board tomorrow?

7 MS. CHILES: I will.

8 CHAIRMAN GARTEN: Thank you.

9 MR. JEFFRESS: Mr. Chairman, could I raise one
10 question?

11 CHAIRMAN GARTEN: Yes.

12 MR. JEFFRESS: If you set up an e-mail
13 account, it may be difficult for someone to complain
14 anonymously if they choose to because you can almost
15 always track back the source of an e-mail. You might
16 consider having a fax number or --

17 CHAIRMAN GARTEN: Well, this will be part of
18 the procedure that we'll come up with. We'll take
19 everybody's suggestions into account. And I didn't
20 realize that you could see this as being public.

21 All right. Well, we now have -- wow, we've
22 got a lot of people here.

1 (Laughter.)

2 CHAIRMAN GARTEN: Lillian, and our chair.
3 Anybody else joined us? And David. And just to bring
4 you up to date, we're moving along very well. There
5 should be no problem with me catching a plane, the way
6 we're going. So I thank you all.

7 We had a report from our inspector general on
8 how we're proceeding with the audit, the audit with our
9 outside auditor of the Corporation itself. And the
10 Audit Committee has been involved in it. And we're
11 pleased with the progress and the timetable that has
12 been assigned to us and promised to us by our
13 independent auditor.

14 We also -- the minutes have a slight variation
15 that I discovered on the plane last night, yesterday
16 morning. And we had two sessions, and the second
17 session was put in as the first session. So it's going
18 to be reversed. And so the minutes were amended to
19 that effect.

20 And we had a discussion of alternatives for
21 LSC fundraising, and Charles reported to us basically
22 what I had been told by you, Frank, about the

1 relationship with the Friends of LSC. And it's clear
2 that they've indicated a willingness to advance funds
3 for specific events. And they're going to take it up
4 or look upon it favorably.

5 Is that a fair statement?

6 MR. STRICKLAND: That's a fair statement. And
7 I think with respect to fundraising generally, there
8 are no plans to continue fundraising directly by LSC.
9 We took a shot at that, it was not successful, and
10 we're not going to pursue that.

11 CHAIRMAN GARTEN: We do have a policy with
12 respect to unsolicited funds coming in.

13 MR. STRICKLAND: Yes. There's a policy on
14 that.

15 CHAIRMAN GARTEN: And that will continue. And
16 just to refresh everybody, we have a separate account
17 set up for that single incident of receiving monies
18 unsolicited.

19 All right. And finally, we voted on item
20 No. 5, and we are ready to move forward. And we'd like
21 board authorization to set up our procedures with
22 regard to complaints. We recognize that there are

1 overlapping situations here. There's no intent to
2 infringe upon the responsibilities of the IG or
3 management under the employee handbook provisions.

4 And the committee is going to attempt to come
5 up with the formal procedures, taking into account
6 everything we've heard and know about, including the
7 question of whether it should be an e-mail address or a
8 fax address that this should go to.

9 All right. We're open now -- I just want to
10 make one comment that we have a wonderful example of
11 cooperation between our committee and the IG in that we
12 set up a bibliography for the Audit Committee
13 originally, and it's been amended several times with
14 the help of the IG and his staff.

15 And I have asked Jonann to distribute the
16 latest edition of the bibliography to each of the board
17 members so they would have an idea of the voluminous
18 material that Tom Meites has become familiar with since
19 he's been appointed to this committee.

20 Any comments, Tom?

21 MR. MEITES: No.

22 CHAIRMAN GARTEN: I wanted to make sure you

1 were still there.

2 All right. Open for public comment. Any
3 comments?

4 MS. PHILLIPS-JACKSON: I just had a comment,
5 or a question.

6 CHAIRMAN GARTEN: Sure.

7 MS. PHILLIPS-JACKSON: Would we be -- I know
8 in the past presented with the auditors at the end,
9 whatever. I'm just wondering, will we be presented
10 with the auditors? Do they --

11 CHAIRMAN GARTEN: You're talking about -- we
12 retained the auditor, the auditing firm, the
13 independent accounting firm, that's taking care of our
14 books and records. And they're at work.

15 And the Audit Committee and the IG has met
16 with them, and they've detailed everything that they
17 intend to do in connection with this audit. And there
18 are a couple of new items that they'll be reviewing.

19 They've also told us about the limitations of
20 their audit. They're not auditing the outside
21 grantees' funds; they're audited by their own CPA. And
22 they have a timetable now of finishing their work at

1 our headquarters, and they will be moving forward. And
2 they -- I don't have the timetable with me, but they
3 intend -- it's before the end of the year?

4 MR. SCHANZ: This is Jeff Schanz. According
5 to the entrance conference minutes that they provided
6 us, the draft audit report is due to the IG
7 December 15th.

8 CHAIRMAN GARTEN: Just before the end of the
9 year.

10 MR. SCHANZ: Which means the final audit
11 report, we will have an opportunity to respond, and the
12 final report will be done by December 31st.

13 CHAIRMAN GARTEN: So the end of the year. And
14 it's been moving along very fast. And of course, board
15 members will have an opportunity to examine. But they
16 are outside internal auditors.

17 MS. PHILLIPS-JACKSON: I understand.

18 CHAIRMAN GARTEN: And they will be coming back
19 with, we hope, an unqualified opinion.

20 Any other questions? Tom?

21 MR. MEITES: Yeah. Well, I just want to know
22 if the Operations and Regulations Committee is still at

1 3:30 your time.

2 CHAIRMAN GARTEN: Are we done? I don't know,
3 but I presume they are.

4 MR. MEITES: Okay. So you are --

5 CHAIRMAN GARTEN: Wait a second, now. Wait.
6 They shifted. Right? To our time.

7 MR. JEFFRESS: 3:30 Mountain time is still
8 correct, Tom, but not in this room. You'll be calling
9 in a different number, I believe.

10 MR. MEITES: I have the other number. Okay.

11 CHAIRMAN GARTEN: Thank you. If there's no
12 other comments or no other business before the
13 committee, I'll accept a motion to adjourn.

14 M O T I O N

15 MS. CHILES: So moved.

16 CHAIRMAN GARTEN: All right. I'll second it,
17 and we've lost our third member, obviously. Thank you
18 very much for being here.

19 (Whereupon, at 2:27 p.m., the Audit Committee
20 meeting was adjourned.)

21 * * * * *

22