

LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

FINANCE COMMITTEE

Friday, November 8, 2002

9:05 a.m.

The W Hotel
930 Hilgard Avenue
Los Angeles, California

COMMITTEE MEMBERS PRESENT:

Nancy H. Rogers, Chair
Edna Fairbanks-Williams
Douglas S. Eakeley (ex officio)
John N. Erlenborn

BOARD MEMBERS PRESENT:

Thomas F. Smegal, Jr.

STAFF AND PUBLIC PRESENT:

John Eidleman, Acting Vice President for Compliance and
Administration
Victor M. Fortuno, Vice President for Legal Affairs,
General Counsel & Corporate Secretary

STAFF AND PUBLIC PRESENT (con'd):

Leonard Koczur, Acting Inspector General

Laurie Tarantowicz, Assistant Inspector General and
Legal Counsel

David Maddox, Assistant Inspector General for Resource
Management

David L. Richardson, Acting Vice President for
Administration, Treasurer, and Comptroller

Mattie C. Condray, Senior Assistant General Counsel

Robert Gross, Senior Program Counsel, Office of Program
Performance

Alice Dickerson, Director, Office of Human Resources

Julie Clark, Vice President for Government Relations,
National Legal Aid and Defenders Association

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Motions: 4, 5, 16, 19

P R O C E E D I N G S

CHAIR ROGERS: We'll begin the meeting. Call to order the meeting of the Finance Committee. And let me say that I'm here -- this is Nancy Rogers -- and then ask the other committee members to indicate that you are there.

MS. FAIRBANKS-WILLIAMS: Edna Fairbanks-Williams.

MR. ERLNBORN: John Erlenborn.

MR. SMEGAL: Tom Smegal.

MR. EAKELEY: Doug Eakeley.

CHAIR ROGERS: Welcome. And I believe that we are going to begin with the approval of the agenda. Is there a motion to approve the agenda?

M O T I O N

MS. FAIRBANKS-WILLIAMS: So moved.

MR. EAKELEY: Second.

CHAIR ROGERS: All in favor?

(Chorus of ayes.)

CHAIR ROGERS: Those opposed?

(No response.)

CHAIR ROGERS: The next item is the approval of the minutes of the committee's meeting of August 23, 2002. Is

■ there a motion for approval?

■ M O T I O N

■ MR. EAKELEY: So moved.

■ MR. ERLNBORN: Second.

■ CHAIR ROGERS: All in favor?

■ (Chorus of ayes.)

■ CHAIR ROGERS: Opposed?

■ (No response.)

■ CHAIR ROGERS: The third is the report on the
■ corporation's operating expenses for fiscal year 2002 through
■ September 30, 2002.

■ MR. RICHARDSON: This is David Richardson. I'm
■ treasurer of the corporation. I was wondering if everybody
■ has the supplemental information? It was a supplemental
■ package that was delivered Wednesday evening to you.

■ MR. SMEGAL: Mr. Richardson, did I get two copies
■ because I'm a slow learner? What's the deal here?

■ MR. RICHARDSON: That, I do not know. I did not
■ handle the mailing.

■ MR. SMEGAL: All right.

■ MR. EAKELEY: Sometimes you don't get it the first

time.

MR. SMEGAL: I thought there was something here I didn't get.

MR. RICHARDSON: Making sure that you read through it thoroughly twice.

There is a memorandum that goes through some budget adjustments that we need. But let me preface that by going through the materials that you have before you. On page 5 of the supplemental information, you will see that there is the total expenses and the budget. And what I've done is I've laid it out in that column 1 is the June approved budget. We do have some proposed budget revisions that the memo speaks to in column 2 with the revised budget.

Then the expenses through September -- and this is pre-audit, so they might change just slightly as we complete the audit. Our auditors came Monday to begin this year's financial review, and they hope to be finished with the audit the Friday before Thanksgiving. They're actually trying to leave even earlier than that this year, because we've already done a week of preliminary work.

And then we have the unexpended balance in column

■ 5. And then the restricted assets are those restricted by
■ board action or management action. And then column 7 is the
■ deferred revenue, and that's the money that is not ours until
■ we expend it. And I will go through that a little bit also.

■ And then with the projected carryover, which will carry over
■ into next year to help with next year's operations.

■ This year, in column 1, as you look at the bottom,
■ the totals, the budget, of course, that you approved was the
■ 336 million, 804 -- almost \$805,000. Of that, we have spent
■ 329,741,000, so there's a total carryover of 7 million, 63 --
■ almost \$64,000.

■ That is broken out into a couple of areas. As I
■ said, column 6 of the restricted assets, there's 120,000 that
■ is set aside for the next board to come in to do a
■ presidential search and an IG search.

■ There are some contracts outstanding for state
■ planning and initiatives that the program performance people
■ have. So that is an additional almost \$67,000 set aside to
■ carry into next year for those projects.

■ And then the IG has \$106,000 worth of contracts
■ that they have awarded going back as far as June and July.

■ And the work is ongoing. It's not quite complete. So that
■ money is set aside to help them in next year.

■ The deferred revenue money is money that is
■ earmarked by appropriation. For instance, in the U.S. Court
■ of Veterans Appeal, we have that money that has carried
■ forward. This year's appropriation was \$895,000. We awarded
■ the full grant this year to the Veterans Consortium, then we
■ had some expenses that we charged to it. But the additional
■ \$67,000 is carried forward from year to help with those, and
■ that's earmarked for that project and can't be used for other
■ initiatives.

■ This is a reimbursable grant. The reason that it's
■ a slight difference from the 895,000 is that there has been
■ some hours that we are reimbursed when our employees work on
■ the project for the court. The grants from other funds
■ available is money that the board set aside to help with the
■ special emergencies. \$115,000 is left in that particular
■ fund for that purpose.

■ And then the technology grants. Last year, we
■ received an amount of money, and it has not been totally
■ spent. We normally award the contracts for those in the

fall. They've just had a technology conference. And much of that money is awarded at this time, so that will be expense you'll see when we come back in January. In October, November, and December, most of that money will be let out as far as contracts for the project.

The projected carryover there is money that you'll see that will carry into next year to help in those different lines. The basic field is for some audits that are ongoing, and that money will pay for those when they are complete.

The management and administration. There's \$955,000 that's carried over from operations, and then there's 959,000 from the IGS that was carried forward. Just a footnote on that. The carryover, if you'll look at page 6, you'll see that we did allocate \$275,000 to this budget from interest, and we only collected \$108,000. Most of you are aware, there was an additional rate cut yesterday. That certainly has an impact on the interest that we are receiving.

So when it comes to carryover, we will net the almost \$148,000 there against the 955,000 in management and administration, and then that money, the net of those two,

■ which is basically \$810,000, will help to support next year's
■ operations.

■ Let me go back to column 2, because that is the one
■ that we're going to -- we're requesting that the board
■ approve a reallocation of funds. This year, there was sort
■ of an abnormal number of adjustments that needed to be made.

■ So what I've done is I've detailed in the memorandum to you
■ the necessity for those.

■ The main situation that has arisen here is we had a
■ situation where we had some employees that originally had a
■ status of exempt employees. They were working basically to
■ get the job done. They were paid a salary. And upon further
■ review with the Inspector General -- excuse me -- with the
■ Legal Affairs Office, and we had some information from a past
■ consultant that we used that was reviewed, it was determined
■ that some of these employees should have been classified as
■ hourly employees. Because of that, it is requiring us to
■ make some overtime payments to them.

■ And you will get additional information about this
■ in the executive session tomorrow, because there is some
■ legal issues that need to be discussed, and you'll get a

■ little greater detail at that point.

■ MR. SMEGAL: In spite of the fact they're exempt
■ employees, records were kept of how long they worked, so
■ there is some data?

■ MR. RICHARDSON: There is some data. It is being
■ reviewed. It is being carefully monitored, and then there
■ will be some adjustments made to people's -- there will have
■ to be a payment made to people for back hours worked.

■ MR. SMEGAL: I see.

■ MR. RICHARDSON: And when we started this and we
■ didn't know -- we had a projected figure, unfortunately, that
■ figure grew as we got later into the quarter. We had \$75,000
■ set aside in the June budget to pay for this. We now need to
■ move additional money in to take care of that.

■ The \$97,500 in the executive office, we had
■ originally budgeted the full amount in the executive office,
■ the original 75,000 to pay for this. I think that we could
■ then move it when the figure became known per office.

■ Like I said, that figure is now higher. So what
■ we've had to do is we're coming to you and asking that you
■ approve a transfer from the executive office to human

resources for 15,000, the information technology for 70,000, and information management for 12,500. And that way, we will be able to satisfy the known amount at this point.

The memorandum does speak to a short fall in salary, and I wanted to give you that additional information as we look at it. There were some additional things that came up. There was an approval for additional equipment to be purchased. When you look at the amount in information technology, there is an amount that went to capital spending, and we were able to take care of that through some transfers within the budget. That is detailed to you on page 3.

When we look at the information that we've got, human resources, there were some adjustments there. Information technology, there was \$27,000 put in for additional capital purchases that were made, and some other operating expenses that occurred into the year also that were unanticipated. So this will take care of those particular spending.

Additionally, with the Office of Information Management, while we need some money to pay for salaries, we're able to do that from money that was not spent in

■ personnel benefits, consulting, and travel, because
■ information -- the consulting, for instance, was some
■ programming, computer programming, to be done this fall for
■ the competition initiative. And it was determined that it
■ was not needed at this point, so it was delayed until next
■ year.

■ The other offices, program performance, we did move
■ money from their personnel benefits and temporary employee.
■ We had to pay some temporary pay that was not originally put
■ in with the movement of Mr. Eidleman into the executive
■ office. We've hired a couple of temporary employees to come
■ in and help with the operations of program performance, and
■ so we had to increase the temporary employee line to
■ accommodate that need.

■ That is sort of short. I'd be glad to answer any
■ questions. Let me bring up one additional thing. It was a
■ key point at the last meeting. The board had authorized the
■ approval of payment of Friends of Legal Services funds up to
■ the amount of \$200,000. We spent like \$199,550. That money
■ has now been refunded. So when you look at the spending that
■ is shown in the sheets, you will see that there is a credit

■ in the consulting line of Legal Affairs. And that's because
■ the money that was spent is an accumulation of funds from
■ '99, 2000, 2001, 2002, and it has now been fully refunded to
■ the corporation.

■ MR. SMEGAL: Am I correct in understanding there
■ are no more refunds due from Friends?

■ MR. RICHARDSON: That is correct. It's all taken
■ care of.

■ MR. EAKELEY: And also, we -- although the Fair
■ Labor Standards issue that's being addressed here will cover
■ the outlays for the past fiscal year just ended, my
■ understanding is that there are still issues that are under
■ review, and we'll be briefed on them tomorrow at the
■ executive session, but that at some point, the board will
■ again be asked for approval for whatever further adjustments
■ need to be made.

■ MR. RICHARDSON: That is correct, sir.

■ MR. EAKELEY: Nancy, can I say one more thing while
■ I have the microphone?

■ CHAIR ROGERS: Yes, please.

■ MR. EAKELEY: I thought this presentation was very

helpful, and it's a good process. And I would hope that we do this on a -- well, not we, but you and the corporation board undertake this type of periodic update adjustment and explanation as you move through the fiscal year and adjustments inevitably have to get made in the budget. It makes it a lot easier to follow.

CHAIR ROGERS: I think that's a very good point, Doug. It does help to have it set out so explicitly. Thank you, David.

MR. RICHARDSON: Yes, ma'am.

MR. EAKELEY: Do we have a formal resolution to move?

MR. RICHARDSON: There is, sir.

CHAIR ROGERS: David, was the answer to that yes?

MR. RICHARDSON: Yes, ma'am.

CHAIR ROGERS: Is the last -- it is Resolution Number 2002-020; is that correct?

MR. EAKELEY: That is correct.

CHAIR ROGERS: Does everyone have it before them?

MR. SMEGAL: Nancy, it is not the last page. It turns out it was a page 13, which has print so small I can't

■ read it.

■ MR. EAKELEY: But it is page 12.

■ MR. RICHARDSON: It is page 12.

■ CHAIR ROGERS: Is there a motion to recommend
■ adoption of Resolution 2002-020?

■ M O T I O N

■ MR. SMEGAL: There is.

■ MR. EAKELEY: I second.

■ CHAIR ROGERS: Any discussion?

■ (No response.)

■ CHAIR ROGERS: All those in favor?

■ (Chorus of ayes.)

■ CHAIR ROGERS: Those opposed?

■ (No response.)

■ CHAIR ROGERS: The recommendation passes. So we
■ will pass on to the board a recommendation of the adoption of
■ the Resolution 2002-020.

■ Is there any further business for this committee?

■ MR. RICHARDSON: Let me bring up one additional
■ item. At the January board meeting, there was a discussion
■ with Oppenheim and the IG and the board in regards to a

change in financial presentation for an audit that is under Government Accounting Standards Board 34, which will require us to do a management and analysis and review.

And basically what you have been doing as far as a little more analysis with the semi-annual reporting and attaching it to the Inspector General's report going to Congress needs to be done with the financial report. I have given our auditors a copy of the last board written information that went to Congress with the semi-annual report. I've also given a copy of the budget. And in the next few weeks, we're going to be formulating a little different type of financial statement that's required because of this new pronouncement.

So it's something we talked about in January, not in a whole lot of detail. But I wanted to make sure that when you did see this in January, that it doesn't come as a surprise to you.

Additionally into that, there will be some additional graphs, some additional reporting requirements and what they do. One of the things they do start with is our rolling budget. They start with the first budget, and then

■ they review the adjustments and come up with the ending
■ budget.

■ So it will be a little more information, more
■ informative, and it will be another vehicle that we can
■ present to Congress and those appropriators for additional
■ support for the work of Legal Services.

■ CHAIR ROGERS: Thank you, David, for that report.
■ Are there any questions about his comments?

■ (No response.)

■ CHAIR ROGERS: I hear none. And I think the only
■ other thing on the agenda is any further business? Is there
■ any further business from the committee, or any --

■ MR. SMEGAL: Or any public comment?

■ MR. EAKELEY: We have one public in here.

■ MR. SMEGAL: Nancy, that's not fair. We have a
■ number of very wonderful people here. And just because Doug
■ suggests that they're not part of the public, I'm not sure if
■ I agree.

■ But none of them are on their feet waving their
■ hands, or in the back of the room waving their hands, even.

■ CHAIR ROGERS: Well, thank you. Then is there a

