

LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

MEETING OF THE
FINANCE COMMITTEE

Saturday, January 31, 2009

11:08 a.m.

Legal Services Corporation
3333 K Street, N.W.
3rd Floor Conference Center
Washington, D.C.

COMMITTEE MEMBERS PRESENT:

Michael D. McKay, Chairman
Lillian R. BeVier
Thomas A. Fuentes
Sarah Singleton
Frank B. Strickland, ex officio

OTHER BOARD MEMBERS PRESENT:

Herbert S. Garten
Thomas R. Meites
Bernice Phillips-Jackson

STAFF AND PUBLIC PRESENT:

Helaine M. Barnett, President
Victor M. Fortuno, Vice President for Legal Affairs,
General Counsel, and Corporate Secretary
Mattie Cohan, Senior Assistant General Counsel, Office
of Legal Affairs
Katherine Ward, Exec. Assistant, Office of Legal Affairs
Hana Bae, Office of Legal Affairs
David L. Richardson, Treasurer and Comptroller, Office
of Financial and Administrative Services
Karen J. Sarjeant, Vice President for Programs &
Compliance
Charles Jeffress, Chief Administrative Officer
Jeffrey E. Schanz, Inspector General
Ronald "Dutch" Merryman, Assistant Inspector General
for Audit, Office of the Inspector General
Thomas Coogan, Assistant Inspector General for
Investigations, Office of the Inspector General
David Maddox, Assistant Inspector General for
Management and Evaluation, Office of Inspector
General
Laurie Tarantowicz, Assistant Inspector General and
Legal Counsel, Office of the Inspector General
John Constance, Director, Government Relations and
Public Affairs Office
Marcos Navarro, Design Director, Government Relations
and Public Affairs Office
Stephen Barr, Media Relations Director, Government
Relations and Public Affairs Office
Treefa Aziz, Government Affairs Representative,
Government Relations and Public Affairs Office
Kathleen Connors, Executive Assistant, Government
Relations and Public Affairs Office
Charles "Chuck" Greenfield, Program Counsel, Office of
Program Performance
Eric R. Jones, System Administrator, Office of
Information Technology
Linda Perle, Center for Law & Social Policy (CLASP)
Don Saunders, National Legal Aid and Defenders
Association (NLADA)
Julie Clark, National Legal Aid and Defenders Assoc.
(NLADA)
Julie Strandlie, Standing Committee on Legal Aid &
Indigent Defendants (SCLAID), American Bar Assoc.
Les Jin, Standing Committee on Legal Aid & Indigent
Defendants (SCLAID), American Bar Association

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Motions: 4, 4, 5, 6, 30, 49, 52

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

2 (11:08 a.m.)

3 CHAIRMAN MCKAY: I'd like to call to order the
4 finance committee.5 The first item on the agenda is approval of
6 the agenda. Do I hear a motion?

7 M O T I O N

8 MR. FUENTES: Move approval.

9 MS. SINGLETON: Second.

10 CHAIRMAN MCKAY: All those in favor say aye.

11 (A chorus of ayes.)

12 CHAIRMAN MCKAY: Opposed?

13 (No response.)

14 CHAIRMAN MCKAY: The agenda is approved.

15 The next item are the minutes of the
16 October 14 meeting. Let's go to those one at a time.
17 Do I have any questions or comments regarding those
18 minutes?

19 MR. FUENTES: One moment, Mr. Chairman.

20 (Pause)

21 M O T I O N

22 MS. SINGLETON: Move approval of the minutes

1 as submitted.

2 MR. FUENTES: Second.

3 CHAIRMAN MCKAY: And before -- and I'm sorry,
4 I want to give you all a chance to take a look. I do
5 want to amend the minutes, page 78, and we'll get to
6 this in the body of the meeting.

7 But I do want -- top of page 78, there's a
8 discussion, a report, from -- Mr. Richardson and Mr.
9 Jeffress participated in the discussion, that there was
10 a budget adjustment due to a miscalculation of locality
11 pay for a group of employees. That was a \$220,000
12 issue.

13 And I would like the minutes to be amended to
14 read that the committee chair asked management to ask
15 the auditor to take a look at the steps that management
16 had taken to make sure this didn't happen again, or the
17 appropriate steps. And there might not be any other
18 steps that could be taken to prevent this from
19 occurring again.

20 M O T I O N

21 MR. FUENTES: Move inclusion of the item as
22 corrected.

1 CHAIRMAN MCKAY: Second?

2 MS. SINGLETON: I'll second that motion, or
3 accept it as a friendly amendment to the first motion.

4 CHAIRMAN MCKAY: Accepted. Very good. All
5 those in favor of the minutes as amended say aye.

6 (A chorus of ayes.)

7 CHAIRMAN MCKAY: Opposed?

8 (No response.)

9 CHAIRMAN MCKAY: The minutes are accepted.

10 The next item are the draft minutes -- or
11 consider the minutes of the November 1, 2008 meeting.
12 Any questions or comments?

13 M O T I O N

14 MS. SINGLETON: Move approval as submitted.

15 CHAIRMAN MCKAY: Second?

16 MR. FUENTES: Second.

17 MS. SINGLETON: All those in favor say aye.

18 (A chorus of ayes.)

19 CHAIRMAN MCKAY: Opposed?

20 (No response.)

21 CHAIRMAN MCKAY: The minutes for November 1
22 are approved.

1 The next item on the agenda is staff report on
2 fiscal year 2009 appropriations. Mr. Constance.

3 MR. CONSTANCE: Thank you, Mr. Chairman. I'm
4 John Constance, director of government relations and
5 public affairs at LSC.

6 I would like to take the opportunity to update
7 you on that matter, and with the chair's okay, to
8 expand it really into three areas: first of all, what
9 we know to date regarding the 2009 appropriations; what
10 we know at this point regarding the matter of the
11 stimulus bills that are working their way through
12 Congress; and finally, what the White House has
13 projected for the 2010 budget timeline. With your
14 permission, I'll proceed in all three of those areas.

15 CHAIRMAN MCKAY: Please.

16 MR. CONSTANCE: The most timely item is that
17 we were disappointed to learn this week that the 37.5
18 million foreclosure funding for LSC programs that had
19 been part of the Senate draft stimulus in the 110th
20 Congress was not made part of the Senate version of the
21 most recent stimulus bill. We have confirmed that it
22 was advanced as a priority request by Senator Mikulski.

1 However, the Senate leadership did not choose to
2 include it in the final bill.

3 Our options regarding that -- or other options
4 regarding that, it is our understanding, are being
5 explored. But as of this time, there is no funding for
6 legal assistance in the current stimulus bills either
7 in the House or the Senate.

8 As to the 2009 funding, as you know, we are
9 currently working under a continuing resolution that
10 was signed by President Bush September 30th of last
11 year to fund most government agencies at FY 2008 levels
12 through March 6, 2009.

13 We are pleased to report that it appears that
14 Chairman Obey will take an omnibus funding bill for
15 2009 to the floor of the House of Representatives next
16 week. When that bill goes to the rules committee the
17 night before its introduction, we will officially have
18 the recommended level for LSC for 2009. We'll keep all
19 informed of the progress and provide that number,
20 certainly, when it is available.

21 The White House has reported that the Obama
22 administration budget for 2010 will go to the Hill in

1 two parts. First of all, a policy budget, which will
2 have large goals, large categories of spending, will go
3 to the Congress in February. The actual budget will be
4 submitted to the Congress in early April.

5 We do not know what the Obama administration
6 will put in the final budget for LSC. We have decided
7 to delay our submission of the 2010 budget to Congress
8 until closer to the time that the budget of the
9 President finally goes forward in April.

10 We've been advised by appropriators on both
11 sides of the aisle that that certainly makes sense. I
12 don't know that we want to get lost in the stimulus
13 package noise or the finalization of the 2009 budget,
14 so that is the way we are proceeding at this point.

15 That is all I have, Mr. Chairman. Happy to
16 answer any questions.

17 CHAIRMAN MCKAY: Thank you. Questions or
18 comments from the committee or any other board members?

19 (No response.)

20 CHAIRMAN MCKAY: Thank you, Mr. Constance.

21 MR. CONSTANCE: Thank you.

22 CHAIRMAN MCKAY: Next item on the agenda is

1 consider and act on revised temporary operating budget
2 for fiscal year 2009. Mr. Richardson and Mr. Jeffress.

3 MR. RICHARDSON: Thank you, sir. For the
4 record, my name is David Richardson. I'm the treasurer
5 and comptroller of the Corporation.

6 On page 87 in your board book, there is a
7 resolution, and the following pages are the supporting
8 worksheets that show the breakdown of the consolidated
9 operating budget. And then the spending that is -- we
10 anticipate for management and administration.

11 As you'll recall, at the November board
12 meeting in Salt Lake, we passed a budget of
13 \$356,734,000. And we have some adjustments to be made
14 because of the year-end audit and decreased spending in
15 most of the categories that we anticipated, so we're
16 going to be asking you to increase the budget today
17 \$390 million (sic). And I will round as we go through
18 here, so make sure that you understand that.

19 One of the things that we have done at
20 the -- we have decided to retitle Management and
21 Administration to Management and Grants Oversight. I've
22 been with Corporation 20 years, 22 years in March, and

1 am used to saying M&A, Management and Administration.
2 So if I slip occasionally and go back to that, just
3 ignore me or hit me on the head. But I will try to get
4 to Management and Grants Administration as we talk
5 about our budget as we go through.

6 The actual --

7 MS. SINGLETON: Oversight.

8 MR. RICHARDSON: Excuse me?

9 MS. SINGLETON: Oversight.

10 MR. RICHARDSON: Oversight. Management and
11 Grants Oversight. What did I say?

12 CHAIRMAN MCKAY: Administration.

13 MR. RICHARDSON: Sorry.

14 (Laughter.)

15 MR. RICHARDSON: Right off. Management and
16 Grants Oversight. The actual year-end carryover, as I
17 said, increased \$390,000. This additional carryover
18 was a result of less spending in Management and Grants
19 Oversight, loan repayment assistance program, and LSC's
20 Inspector General.

21 We did have toward the end of the year one
22 grant recovery, which we're using to increase the

1 grants from other funds. And we also had an increase
2 in the spending for the U.S. Court of Veterans Appeals,
3 so there's a decrease in carryover of \$602 there. That
4 is all detailed in the memo that I presented earlier in
5 the week in regards to my talking points.

6 What I have done is detailed where we have
7 increased those areas. For instance, in the temporary
8 operating pay in the Program Performance, it was
9 increased \$20,000, and this was to fund a temporary
10 position while a search is underway for a regular
11 employee.

12 Additionally, we have increased the Human
13 Resources budget \$6,000 to fund a temporary employee
14 when our corporate receptionist is on leave. And that
15 would be either sick or vacation.

16 The consulting line, one of the things that we
17 were concentrating on because, as you're aware, we're
18 self-insured on a couple of cases that are being
19 handled right now, we were able to use \$100,000 of that
20 money to increase our outside consulting cost or
21 counsel cost through the consulting line. Additionally,
22 we increased the Office of Program Performance travel

1 \$10,000, and we increased the Compliance and
2 Enforcement's travel for \$35,000.

3 Originally in our budget we had not put any
4 money in for advertising of new positions. We didn't
5 think we would have the money to do it. However, in
6 October and November we did have a couple of employees
7 who resigned the Corporation and have now separated,
8 and we are going to have to replace those positions.

9 So we have increased HR's advertising budget
10 \$4,600 to accommodate some advertising there. There's
11 a small amount additional that was put into Office of
12 Financial and Administrative Services just to, you
13 might say, house the money until it might be needed
14 somewhere else.

15 Additionally, we had \$76,000 restored to
16 capital purchases, and that money went to Office of
17 Financial and Administrative Services and Office of
18 Information Technology, Information Technology getting
19 the bulk of the money, \$60,000, and the \$16,000 into
20 Office of Financial and Administrative Services.

21 At the October meeting, I did not get an
22 opportunity to tell you what this budget pays for. So

1 in addition to that, what I'd like to do is just take a
2 minute to give you a little breakdown as to what this
3 budget supports.

4 For instance, we have five board meetings
5 budgeted, two to be held in Washington and three
6 outside of the D.C. area. There's 85 staff positions
7 in this particular budget. There's also a travel
8 budget of \$50,000 for the executive office. As I said,
9 we increased the litigation budget \$100,000 before;
10 that gives us a total for outside counsel of \$250,000.

11 The Government Affairs budget has \$20,000 for
12 printing. The total amount for Human Resources for
13 other operating is \$20,500. We have other operating
14 costs in Office of Financial and Administrative
15 Services of \$313,000. Our rent for the Corporation is
16 \$1.6 million, and that's net of the sublease that we
17 have.

18 We have printing costs, with the maintenance
19 of our printing operations of \$75,000. And then this
20 year's directors and officers liability insurance came
21 in at a quote of \$146,000. Our total insurance that we
22 pay when we talk about commercial liability or

1 accidental death and dismemberment when traveling is
2 about \$175,000.

3 In Office of Information Technology, we have
4 our communications budget. There's \$60,000 there for
5 our telephone. There's \$103,000 for the maintenance of
6 our computer systems, the payment of our annual
7 maintenance on software. And now we have \$100,000 for
8 new computers.

9 In the Office of Program Performance, we have
10 many programs that are being supported with the field.
11 There's \$111,000 there for consulting because we don't
12 have enough staff to undertake all the different
13 projects. And there's \$175,000 in travel, and that
14 would take as far as the travel for the regular
15 employees who travel and also the consultants.

16 Office of Management and Information, we have
17 \$25,000 for other operating expenses, and that's mainly
18 subscriptions for our reading room and offsite storage
19 of documents and retrieval. Because we don't have a
20 lot of storage space here in the Corporation, we use an
21 outside service for that.

22 And then in the Office of Compliance and

1 Enforcement, they undertake a number of trips with
2 their case service reviews and their joint visits with
3 OPP, their A-50 follow-up. They do training and
4 technical assistance. They have \$100,000 in consultant
5 cost that is projected, and the \$225,000 in the travel
6 supports both travel for individual employees and the
7 consultants.

8 The Inspector General also had an increase
9 included in the \$389,000. 137 of that was for the IG.
10 This money will be allocated across the lines to help
11 support their budget. Personnel compensation and
12 benefits was increased \$73,000 so that they could add
13 another investigator.

14 There's \$15,000 to support interns, and travel
15 was increased by \$40,000. And then there was \$7,000
16 used to support information technology. The OIG budget
17 also has \$75,000 for the disaster recovery computer
18 backup program that is underway.

19 The OIG's budgets will support 24 staff
20 members. Their work will include responding to and
21 reporting to the board and the Congress on the findings
22 of audits, independent audits, investigations,

1 evaluations, and legal reviews.

2 Planned external projects for this fiscal year
3 include onsite audits of grantees, onsite of the
4 grantees' independent public auditors, through the
5 guidance. They will also review 138 grant reports,
6 referrals of grantee findings to OCE management there,
7 and the IP quality assurance reviews. And of course,
8 waste, fraud, or abuse investigations will also be
9 conducted there.

10 They also pay for the audit of the
11 Corporation. And recruiting and retaining high quality
12 staff is something that they're looking at with their
13 peer review. They're actually -- internal work
14 includes the oversight of LSC corporate audit,
15 representation of LSC groups, review and comment on
16 legislation and regulation, and assisting with the peer
17 review of the OIG audit function. This information was
18 also detailed to you at the November meeting in Salt
19 Lake in the OIG's audit plan.

20 I know that is a very quick overview, but if
21 you have any questions, I'd be glad to answer them for
22 you.

1 CHAIRMAN MCKAY: That was very helpful. Thank
2 you.

3 Any questions or comments from the committee
4 or other board members?

5 MS. BeVIER: I have a question.

6 CHAIRMAN MCKAY: Yes, Lillian?

7 MS. BeVIER: I'm wondering about the budget
8 for board meetings. It includes five board meetings,
9 and we are in the process of planning for a transition.
10 We have some interest in having perhaps joint meetings
11 with the incumbent board and the incoming board.

12 And does the budget as presently drafted make
13 any accommodation for the expense that that is likely
14 to entail?

15 MR. RICHARDSON: It does not. The other areas
16 that are included in the board budget is there is 16
17 other travel events for the board. And that could
18 certainly be reallocated to accommodate that. Those 16
19 travel events is for you going -- coming to the
20 Corporation, visiting staff, going to other functions
21 in your particular area with LSC programs where you're
22 representing LSC programs.

1 But, you know, we can certainly look at that
2 to see that money is made available. We request the
3 budget quarterly, and if we see that there is a need,
4 as you have indicated that there is, we can make
5 additional allocations as we need them into the budget.

6 MS. BeVIER: In other words, reallocating from
7 other programs at the time that those are needed? Or
8 this would be the quarterly adjustment to a budget?

9 MR. RICHARDSON: Quarterly adjustment to the
10 budget.

11 MS. BeVIER: I just want to make sure we can
12 be quick off our feet when or if that need arises,
13 that's all. I hope that can be done.

14 MR. RICHARDSON: It can. The president has
15 authority to make adjustments to the budget up to
16 \$75,000. And then anything over \$75,000, then we
17 report to the chairman of the committee and the
18 chairman of the board. And once we have their
19 approval, we can move forward with the adjustments over
20 that.

21 MS. BeVIER: Thank you.

22 CHAIRMAN MCKAY: Charles, you have something

1 to add?

2 MR. JEFFRESS: Mr. Chairman, I would also
3 point out that it does provide for five board meetings.
4 If we have five board meetings between now and April,
5 then in April we would make an adjustment for the
6 remainder of the year. So there are certainly funds in
7 here to operate until the next quarter for whatever
8 comes up.

9 CHAIRMAN MCKAY: Great. Bernice, then Tom.

10 MS. PHILLIPS-JACKSON: On page 89, when you
11 say revised, what are you comparing these numbers to?
12 Because I'm not sure. When you say revised, I thought
13 that you had some numbers -- would have some numbers on
14 the side so we can look at them to compare what you
15 have in the --

16 MR. RICHARDSON: I can certainly provide
17 those. Normally in this type of presentation, we've
18 not done that in the past. But I could certainly do
19 that.

20 MS. PHILLIPS-JACKSON: Yes. Because it's just
21 not clear what I'm looking at.

22 CHAIRMAN MCKAY: Now, as I understand it, some

1 of the information is contained in the memo that you
2 gave us and you just presented. But if Bernice would
3 like to see an actual line-by-line change, that's
4 something you could put together?

5 MR. RICHARDSON: Absolutely. I've already got
6 it. We had a budget of \$14 million. We've increased
7 it to \$14,264,000. I have the individual lines that
8 that goes to. I can provide that before you leave
9 today.

10 MS. PHILLIPS-JACKSON: That would be helpful,
11 yes. Thank you.

12 CHAIRMAN MCKAY: And if you could make a copy
13 for everyone, we'd appreciate that.

14 Tom.

15 MR. FUENTES: Mr. Chairman, just in layman's
16 terms, I just want to make sure I know what the
17 committee is doing. Because we have been dealing with
18 essentially three different budgets before us, three
19 different fiscal years, we're now talking about the
20 2009 budget. And we voted on a budget number which was
21 2010, and there was some division on the committee as
22 it relates to that one. We're not effecting that at

1 all.

2 We are looking at 2009 because we found a
3 little money left over from 2008. And that amount is
4 how much?

5 MR. RICHARDSON: It's \$389,894.

6 MR. FUENTES: Okay. So the budget that we're
7 effecting -- long-established and approved, we've been
8 operating on -- we're just tweaking by \$300,000-plus?

9 MR. RICHARDSON: That's correct.

10 MR. FUENTES: Is that, in layman's terms,
11 exactly what we're doing?

12 MR. RICHARDSON: Right.

13 MR. FUENTES: Thank you. I do think that
14 Bernice's request for a line item layout that would
15 show us where exactly those dollars are going would be
16 helpful when we have a presentation of something like
17 this. Thank you.

18 CHAIRMAN MCKAY: Thank you. Sarah?

19 MS. SINGLETON: I need some similar help.
20 There was one fiscal year where we were not going to
21 have the carryover we had been having, and as a result,
22 we had to change the allocation for what is now known

1 as the Garten LRAP program.

2 What fiscal year was that?

3 MR. RICHARDSON: That's 2008, and -- I'm
4 sorry, 2009. We then allocated the 2008 money that was
5 not being spent in 2008, revising the budget to
6 increase Management and Grants Oversight so that we
7 would have that money to help support this budget.

8 MS. SINGLETON: And what year did we not fund
9 the LRAP program in? 2009?

10 MR. RICHARDSON: In 2009 (sic), there was a
11 \$500,000 appropriation for the LRAP. That money would
12 not have been spent until 2009. We now have \$500,000
13 new money in 2009. That money will go to support the
14 LRAP program. So therefore, there's not any period
15 that we are now not funding the LRAP program.

16 MS. SINGLETON: I'm sorry. This is sounding
17 like one of those games where you put the pea under the
18 walnut.

19 (Laughter.)

20 MR. JEFFRESS: Could I try that?

21 MS. SINGLETON: Yes.

22 MR. JEFFRESS: The \$500,000 that was

1 appropriate in 2008 for LRAP was not spent, and it was
2 carried forward. It was reprogrammed into M&A and
3 carried forward in 2009 for M&A. So in 2008, there was
4 no new money invested or loaned through the Garten LRAP
5 program. That \$500,000 was loaned in this fiscal year.

6 MS. SINGLETON: I guess this is what I'm
7 getting at. Are you telling me that we moved -- we
8 reprogrammed \$500,000 to Grants Management Oversight,
9 and how we have an additional \$300,000 that we're
10 adding to Grants Management and Oversight?

11 MR. JEFFRESS: If you will recall the
12 discussion here at the board, we discussed in July that
13 we had asked the -- in July of 2008 -- that we had
14 asked the management staff to reduce spending because
15 we anticipated this shortfall.

16 We actually started our internal discussions
17 in June. In July we discussed with the board that we
18 had asked people to slow the rate of spending in '08 so
19 we would have more funds to carry forward in '09. And
20 what you're seeing here today is, in fact, the slowdown
21 that occurred that we did reduce our 2008 spending, and
22 as a result we carried forward into 2009 more than we

1 had anticipated.

2 So what you have reallocated today,
3 \$100,000-some for the IG and \$200,000-some for
4 Management and Grants Oversight, is a result of that
5 reduced spending in 2008.

6 MS. SINGLETON: And you also need the \$500,000
7 from LRAP?

8 MR. RICHARDSON: If I can, the budget that we
9 had last year before we reprogrammed the money was
10 \$14,900,000. The budget that you approved with the
11 \$500,000 from LRAP was \$14 million. Otherwise, we
12 would have only had \$13,500,000 to operate on in this
13 fiscal year.

14 The reason you might say -- I'm very
15 conservative, I hope, when I do my estimates. I would
16 rather come to you and say, look what I have found
17 instead of look to what I need. So I had all along
18 thought that I would be somewhat short on my
19 projections of spending, and therefore have a little
20 more carryover I didn't realize it was going to be
21 this amount of money.

22 But as far as your question, do we need it for

1 operations? Yes, we do, because we've now added staff.
2 Last year we added a number of staff in different
3 offices so that -- mainly in Office of Program
4 Performance so that we could be in the field more. And
5 now we have their full year of salary that we will need
6 to be paying in 2009.

7 CHAIRMAN MCKAY: Any other questions or
8 comments? Herb?

9 MR. GARTEN: My understanding was that you
10 also discussed this with members of Congress or staff,
11 what you were doing, and that you basically got an okay
12 on following this procedure.

13 MR. JEFFRESS: That's correct. We made a
14 formal notification to Congress and we got a formal
15 notification back.

16 If I could, Mr. Chairman, just in terms of a
17 heads up, but it's related to this conversation, as
18 John Constance reported to you, some time in the next
19 five weeks we expect Congress will pass the final 2009
20 budget.

21 If in fact that budget reflects an increase
22 for Management and Grants Oversight -- well, actually,

1 for any part of LSC, which we anticipate that it will,
2 at least for the field -- you will at your next meeting
3 be presented with a consolidated operating budget to
4 replace this temporary operating budget.

5 This temporary operating budget is based on
6 last year's funding level, which is the continuing
7 resolution we're operating at, plus the reprogramming
8 of the carry-forward.

9 But when Congress in the next five weeks some
10 time does pass the FY '09 budget, we then will have a
11 different before that you all will have to approve, and
12 that will be presented to you in April. And that will
13 be the consolidated operating budget, the COB, as
14 compared to the temporary operating budget which you're
15 looking at now.

16 And with respect to that, our agreement, as
17 Mr. Garten was asking about, was that assuming that the
18 appropriation for Management and Grants Oversight was
19 at least \$14.5 million and the -- one house was at 13
20 and one house was at 16, but our agreement was if the
21 combined -- if the result, final result, for 2009 was
22 at least \$14.5 million for Management and Grants

1 Oversight, that we would then apply to reprogram the
2 \$500,000 back to the LRAP program that we had
3 reprogrammed forward last fall.

4 So depending on the action of Congress, there
5 may yet be the opportunity to reprogram that money back
6 into LRAP. And that would be presented to you as a
7 part of the consolidated operating budget in April.

8 The other significant impact on the budget
9 that would be expected should Management and Grants
10 Oversight receive an increase, we froze all salaries
11 this year. There is no salary increase in the
12 temporary operating budget before you for any LSC
13 staff. The D.C.-based federal employees this year
14 received a 5.1 percent increase --

15 MS. SINGLETON: Who?

16 MR. JEFFRESS: Federal employees, a
17 combination of locality pay and across the board.
18 Obviously, we're in a competitive environment in terms
19 of hiring. It would not behoove us to fall too far
20 behind the federal folks.

21 So if that budget passed by Congress includes
22 an increase for Management and Grants Oversight in

1 addition to the reallocation or reprogramming back of
2 the LRAP money, we would also expect to present to you
3 a proposal for a pay increase for LSC staff.

4 MR. RICHARDSON: If I can add one comment
5 there, when Charles is speaking of LSC staff, he is not
6 speaking as to the Inspector General's staff at this
7 point because they do have money in their budget for
8 raises. There is 6 percent in their budget to be given
9 out beginning January 1st, which would basically be a
10 4-1/2 percent increase in this particular budget for
11 the OIG staff.

12 CHAIRMAN MCKAY: Any other questions or
13 comments?

14 (No response.)

15 CHAIRMAN MCKAY: We have in front of us a
16 resolution that would reflect that recommendation that
17 we're receiving from management. You'll find that
18 resolution at page 87, Resolution 2009-001. And
19 attached to the resolution is revised temporary
20 operating budget that again reflects the numbers that
21 David and Charles have presented to you.

22 Do I hear a motion with regard to that

1 resolution and recommending it to the full board?

2 M O T I O N

3 MS. PHILLIPS-JACKSON: So moved.

4 CHAIRMAN MCKAY: Do I hear a second?

5 MS. SINGLETON: Second.

6 CHAIRMAN MCKAY: Any discussion?

7 MR. FUENTES: I would just suggest that if and
8 when it is passed and if and when the name of our loan
9 repayment program is voted on by the entire board, that
10 it be reflected in this resolution.

11 CHAIRMAN MCKAY: Great idea. Any other
12 questions or comments?

13 (No response.)

14 CHAIRMAN MCKAY: All those in favor of
15 recommending Resolution 2009-001 to the full board say
16 aye.

17 (A chorus of ayes.)

18 CHAIRMAN MCKAY: Opposed?

19 (No response.)

20 CHAIRMAN MCKAY: That motion passes.

21 Next item is the presentation on LSC's
22 financial reports for the first three months of fiscal

1 year 2009. Mr. Richardson and Mr. Jeffress.

2 MR. RICHARDSON: Earlier this week I e-mailed
3 to the full board a memo that's dated January 26th that
4 is titled December Financial Report. I hope you've had
5 an opportunity to look at that.

6 MS. SINGLETON: Are you sure it's not January
7 23rd?

8 MR. RICHARDSON: It's January 26th.

9 MS. SINGLETON: Okay. Yes. Thank you.

10 MR. GARTEN: Mine shows the 23rd.

11 MS. BeVIER: Do you have extra copies?

12 MR. RICHARDSON: I do.

13 MS. BeVIER: Mine shows the 23rd, too.

14 CHAIRMAN MCKAY: Yes. Mine does, too.

15 MS. SINGLETON: Yes. Mine, too. The other
16 one was dated January 26th.

17 MS. BeVIER: David, if we are all on the same
18 page, I don't need another --

19 MS. SINGLETON: I don't need another one.

20 MS. BeVIER: Thanks.

21 MS. BARNETT: It was sent on the 26th. It's
22 dated the 23rd.

1 MS. BeVIER: Oh, well that helps. No. Mine
2 says January 23rd, so -- December Financial Report?

3 CHAIRMAN MCKAY: Well, let's make sure we're
4 talking about the same one.

5 MS. BeVIER: Good idea.

6 CHAIRMAN MCKAY: Because mine is dated the
7 23rd as well. Does the memorandum begin, "This
8 memorandum and the attachment should be placed in board
9 book at page 90"?

10 MS. SINGLETON: The 26th is actually different
11 than the 23rd one.

12 CHAIRMAN MCKAY: Oh, okay.

13 MS. SINGLETON: The third paragraph is
14 different.

15 MR. RICHARDSON: It is slightly different. It
16 was edited later. I apologize for that.

17 (Pause)

18 CHAIRMAN MCKAY: For those of us who
19 read -- so we have in front of us now a document dated
20 January 26, 2009 from you, David, to me. And just for
21 those of us who received the January 23rd version, what
22 changes have been made?

1 MS. BeVIER: I think the font size.

2 MS. SINGLETON: No. Look at the third
3 paragraph. There's no "short-term basic field."
4 Short-term is taken out, or is added. On January 26,
5 the term "short-term" is added in the third paragraph
6 before "basic field programs."

7 CHAIRMAN MCKAY: I mean, without a detailed
8 explanation, why do we get -- why are we getting a
9 revised memorandum? Was there an error in the one that
10 you sent to us on the 23rd?

11 MR. RICHARDSON: Normally when I present a
12 memo to Charles to review and then I send it out, I
13 will then re-date it the date that is e-mailed to you.
14 And during this time, there was just a few little edits
15 that I did include in my memo. And I evidently just
16 picked up the wrong one to e-mail to you, and that I
17 apologize for. But they're minor. There's no
18 substantive changes in the memo itself.

19 CHAIRMAN MCKAY: Fair enough.

20 MS. SINGLETON: And the numbers all seem to be
21 the same.

22 MR. RICHARDSON: Yes. It was mainly just some

1 clarification. For instance, the 507, as you say,
2 where I said was spent in basic field, I just
3 reiterated that it was short-term funding there.

4 I'll go back a little bit and just sort of
5 walk through the memo and do a little comparison to
6 make sure that there is not additional information that
7 was omitted in the first one, but I do not believe
8 there is.

9 The temporary operating budget that you just
10 passed is what I've used for the comparisons. I felt
11 like -- and I normally do that -- that it gives you a
12 better comparison of how we're operating to do it with
13 the more current budget.

14 The report remains broken out in two sections.
15 That's because we report the delivery of legal
16 assistance on an annual basis because we normally give
17 out our grants to the field on an annual basis. And
18 then the second box that you have where you've got
19 Management and Grants Oversight, the loan repayment
20 assistance program, and Inspector General, those are
21 done on a monthly basis.

22 So what you have here is you have the annual

1 budget, the actual amount that is spent, and then the
2 budget that is 3/12ths of the 12-month budget.

3 What we have as far as basic field, you see
4 that they're spending \$507,500 there in the first three
5 months. In --

6 CHAIRMAN MCKAY: Okay. Now I've lost you.
7 Where are you right now?

8 MR. RICHARDSON: I'm actually referring to the
9 memo and looking at the worksheets also.

10 CHAIRMAN MCKAY: So the first box?

11 MR. RICHARDSON: The first box.

12 CHAIRMAN MCKAY: All right.

13 MR. RICHARDSON: And when you look at basic
14 field --

15 CHAIRMAN MCKAY: You're on attachment A?

16 MR. RICHARDSON: -- programs, attachment A,
17 column 2.

18 CHAIRMAN MCKAY: Yes. Okay. Thank you.

19 MR. RICHARDSON: You see that there is \$07,000
20 there that was granted in this quarter, and those were
21 the short-term funded programs.

22 In the memo I've explained that in January,

1 January 1st through December 31st, we give grants. As
2 of the writing of this memo, we have awarded
3 \$326,195,000 for 2009. That'll show up as an
4 expenditure in the January report.

5 There's just some small expenses you see there
6 for the veterans, cab fares to different meetings and
7 so forth. We had three grants in the technology area,
8 and dealing with the competitive grants. Last year we
9 had a carryover of \$380,000. Basically, this is
10 \$368,900. So we still have \$114,000 in 2009 money, and
11 that money will be used, my understanding, to support
12 the 2009 grant process.

13 The second section is, of course, what we do
14 on a quarterly basis or monthly basis with the
15 reporting. We've spent, of our \$14,200,000 budget in
16 Management and Administration, \$2.7 million. That
17 leaves -- that is compared to a three-quarter budget of
18 \$3,561,000. So we're basically \$839,000 under-budget
19 at this point. We are actually spending about \$460,000
20 less than we had spent at this time last year.

21 And the Inspector General, there's \$609,000
22 expenditures. That's compared to -- of course, his

1 annual budget is 3.8 that you've just approved. The
2 three-month budget is \$959,000, so about \$350,000
3 under-budget at this point for them. And they are
4 actually pretty much on target with what they spent
5 last year, \$410 less than what was spent last year.

6 The next page -- and I should back up. The
7 loan repayment assistance program, we've not begun
8 forgiving the loans at this point. We will do that
9 this month. Currently we have in our accounts
10 receivable \$540,000. And year-end, we had \$348,000 in
11 outstanding loans. So a little less than \$200,000 has
12 been granted in 2009. That will be forgiven in 2010.

13 The second page gives you a breakdown by
14 office of management and grants oversight. As you see,
15 all of the budgets are under-budget. We have
16 encumbrances of the year, and that is contracts that we
17 have outstanding, items that we are purchasing, or
18 services that we have procured, in the amount of
19 \$63,800.

20 Those will be paid as the projects are
21 completed and the goods are received. So basically, as
22 you see, we're in very good shape as far as money that

1 we've spent thus far.

2 On page 2 of 3, the next one gives you the
3 comparison within the budget categories, broken down by
4 compensation and benefits, temporary employees, and the
5 like. There are none of these categories that are
6 under-budget at this point, so again, we're in very
7 good shape there.

8 And the encumbrances shows the areas where the
9 contracts for services and goods are broken down. On
10 the other page, you have it by office. And then this
11 is by budget category.

12 The next page, attachment B, page 3 of 3,
13 gives you the breakdown by office. And the key areas
14 there that I would point out to you is for instance,
15 we've paid -- in Legal Affairs, under consulting,
16 you'll see that there is \$34,600 there that's been
17 spent on outside counsel and other costs there dealing
18 with litigation.

19 In the Information Technology, you'll see that
20 there is \$10,000 in communication for our telephones
21 and so forth that's been paid to date. And then the
22 areas that we sort of zero in on is the travel of our

1 Program Performance and Compliance and Enforcement, and
2 you'll see that we have \$15,000 in Program Performance
3 consulting along with \$18,500 in travel. And then for
4 Compliance, we've had \$11,000 in consulting and \$26,000
5 in travel.

6 Those areas are low at this point mainly
7 because during November and December, it is very
8 difficult to arrange travel or case reviews and so
9 forth during the holidays. That travel is starting to
10 pick up, so you will see additional expenses during the
11 year coming in for these particular areas.

12 One other area of note that is in the memo: I
13 told you that I would report to you in regards to the
14 president's discretionary budget. That budget is
15 included in other operating expense in the Executive
16 Office.

17 The balance, the cash balance, of \$16,141 is
18 what we had at year-end. We've had no expenditures
19 from that. We actually have a very good interest rate
20 at PNC Bank, paying us 4 percent for a period of six
21 months, so we've earned \$136 for three months on the
22 money.

1 Somebody asked me, why don't we put all the
2 money there? They limit you to three transactions a
3 month. So otherwise, it goes back down to a regular
4 interest-bearing checking account.

5 And by the way, I just went to check before I
6 came in here. The interest that we have received on
7 our regular checking account is \$17,000 the first
8 quarter. If you would multiply that out, we're going
9 to be hard-pressed to get the \$100,000 that I have
10 projected, and when we come back to you with our
11 appropriation, that may have to be reduced because
12 interest rates, as you're aware, have just dropped out
13 of sight, I mean, not -- getting very, very little.

14 Again, I know that is a very hurried report. I
15 hope you had an opportunity to look at it. And if
16 you've got any questions, I will be glad to speak to
17 them.

18 CHAIRMAN MCKAY: Tom?

19 MR. FUENTES: Thank you, Mr. Chairman. I
20 certainly commend staff and the administration for
21 their conservative and respectful operating and
22 spending in this.

1 Earlier, the subject of pay raises was
2 somewhat glossed over or mentioned, but without any
3 discussion. And I see that, you know, we're behind in
4 our spending, which is good. And I'm wondering just
5 how automatic pay raises would happen.

6 Is that something that we as a board would
7 have the opportunity to review? My concern is that
8 this is a poverty agency, and we all are feeling the
9 effects of this great recession across America. And I
10 would be concerned if I opened up my newspaper one day
11 and saw that pay raises were implemented here and we
12 haven't had the opportunity to discuss it.

13 Can you share with us at what point that would
14 happen, both for the Corporation and for the Office of
15 the Inspector General? I for one would think that
16 would be a very serious item of thoughtful deliberation
17 in the economic environment that faces our nation
18 today.

19 MR. JEFFRESS: Mr. Chairman, if I may, the
20 board always approves the budget for the compensation
21 category, and each year we inform the board what is in
22 there for pay raises. Typically this is done, of

1 course, before the first of the year. We know what the
2 budget is going to be, and then the amount of the pay
3 raise is decided upon after the first of the year.

4 So there would be no pay raise until the board
5 approves the budget, the consolidated operating budget,
6 because there is no money in the temporary operating
7 budget for the pay raise.

8 So next month, should Congress increase our
9 funds, should management believe a pay raise is
10 appropriate, it would be in the budget that would be
11 presented to the board in April for your approval.

12 Now, that's for Management and Grants
13 Oversight. As David pointed out, the Inspector General
14 budget actually is sufficient at the moment to
15 accommodate a pay raise, although they have not yet
16 implemented one. But I'll let them speak for
17 themselves.

18 CHAIRMAN MCKAY: Before you do, if management
19 would include as part of its proposed budget pay
20 raises, I'm assuming, particularly in light of Mr.
21 Fuentes' comments, it would be something that would be
22 explicitly invited to our attention and not just part

1 of a full-blown -- just a line item that might not be
2 discussed?

3 MR. JEFFRESS: Yes, I would be, and it has
4 been every year. When David presents the consolidated
5 operating budget, he talks about the assumptions, and
6 that's one of them.

7 CHAIRMAN MCKAY: Thank you. Jeff.

8 MR. SCHANZ: Yes. This is Jeff Schanz, the
9 Inspector General. I wanted to make a point of
10 clarification. I have with me David Maddox, the
11 assistant IG for management and evaluation, who is my
12 budgeteer. And I'd like him to discuss the pay raise
13 issue.

14 We are very conservative and we do have a
15 budget surplus at this point. But we have not gone
16 forward with any pay raises. We try to keep things in
17 keel with the Corporation as far as that's concerned. I
18 don't want any scintilla of evidence of disparate
19 treatment for OIG employees. And I'll turn it over
20 today.

21 CHAIRMAN MCKAY: Yes, very briefly. We're
22 running a little behind, so if you could encapsulate

1 it, we'd appreciate it.

2 MR. MADDOX: Yes. I just wanted to clarify
3 just what Jeff said, that increases have been held.
4 We're waiting for the continuing resolution to run out
5 and the appropriation to be given, and we will make a
6 decision, meeting with Helaine, at that point in time
7 about what's the real appropriate thing to do.

8 CHAIRMAN MCKAY: Thank you.

9 MR. FUENTES: Mr. Chairman, I'd like to follow
10 up on that. I would like to instruct the Inspector
11 General that you bring that matter to us. I don't want
12 you to act on that independently. I want you to -- if
13 we discuss whether we're going to give staff a raise or
14 not, I want to discuss that we're giving the Inspector
15 General's office a raise.

16 Just because you've got money, you don't have
17 to spend it. And in the sensitivity of people
18 suffering across this nation today, I don't want to
19 read in the newspaper that a poverty agency has issued
20 pay raises. Am I clear?

21 MR. SCHANZ: Very clear, but my speaker
22 doesn't work. You're very clear, and I'm very

1 sensitive to that also, which is why I mentioned
2 earlier even disparate treatment within the Corporation
3 itself. So yes, that issue will be presented to the
4 board.

5 CHAIRMAN MCKAY: Any other questions or
6 comments about the presentation? Charles?

7 MR. JEFFRESS: Thank you, Mr. Chairman. One
8 final comment. In David's memo to you, he noted that
9 while not spent in December, in January we made a grant
10 to Acadiana Legal Services in Louisiana of \$80,000,
11 grants from other funds, to assist with the additional
12 expenses they have incurred following up the
13 hurricanes.

14 We have also this month made a grant to
15 Capital Area Legal Services in Louisiana for the same
16 purpose in the amount of \$54,000. So those will show
17 up in your January financial report as expenditures
18 made from the grants from other funds category.

19 CHAIRMAN MCKAY: Thank you. Anything further
20 on this?

21 (No response.)

22 CHAIRMAN MCKAY: I do think this is the

1 appropriate time for us to get back to an issue that
2 was raised in the October 14th finance committee
3 meeting, and this related to the locality pay portion
4 of salaries not being carried over into this fiscal
5 year. And it was an error of \$220,000.

6 The issue was presented to us at the finance
7 committee meeting. You explained what happened. You
8 explained what steps were put in place to make sure it
9 didn't happen again. These kinds of errors and others
10 might be avoided in the future.

11 And I think you'll recall that we had
12 requested that we have the outside auditor, who is
13 coming in anyway, to take a look at those steps to make
14 sure that they were -- that they are all the steps that
15 could be taken to make sure it doesn't happen again.

16 I actually looked at the transcript of that
17 discussion, and I think you, Charles, said it would be
18 helpful to have another set of eyes take a look at it.
19 I wonder if you could -- we've talked about this out in
20 the hallways.

21 But if you can just report to the committee
22 what has happened since then -- I guess it fell off the

1 tracks, and what you guys have all done to get it back
2 on the tracks.

3 MR. JEFFRESS: Thank you, Mr. Chairman. That
4 meeting, as you say, was October 14th in the morning of
5 the finance committee. That same afternoon, the
6 auditors came in for an entrance conference for the
7 annual audit, and met with management and with Herb
8 Garten as chair of the audit committee.

9 During the course of that opening conference,
10 Mr. Garten, as you had requested at the finance
11 committee, Mr. Chairman, mentioned that we wanted the
12 outside auditor to take a look at the revisions we had
13 put in place to our processes to avoid that error
14 happening again.

15 In the course of their auditing the '08
16 expenses, they did not in fact look at this revision
17 for our '09 processes. Mr. Chairman, you pointed this
18 out to us yesterday. We have sent the information to
19 the auditors.

20 They will be here today at the audit committee
21 meeting. They certainly will speak to the fact that
22 they have the information, but I can't promise you that

1 at the audit committee meeting they'll be ready at this
2 point to make a comment on our revised procedures.

3 But as you pointed out, we mentioned it at the
4 opening with the auditors. It was not done during the
5 course of the regular audit, but it is being done now.

6 CHAIRMAN MCKAY: Thank you. Just a couple of
7 comments. Number one, I'm glad it's back on track. I,
8 you know, was initially troubled about this \$220,000
9 error. Particularly in these days, we want to be very
10 careful about these kinds of things happening, and when
11 they do, that we take the steps that are necessary to
12 make sure it doesn't happen again.

13 I am troubled that, you know, the board had
14 asked that this be done and it wasn't done. I know
15 we're back on track now. That's great. But I do want
16 to gently remind management, it's management's
17 responsibility it gets done, too. So simply passing it
18 on to the auditor and expecting her to do it isn't
19 enough.

20 I mean, the same that -- you know, it wasn't
21 just yesterday. It was earlier in the week that I
22 asked whether or not it was ready to go. In the same

1 way I did it, I really would have expected management
2 to be on this and to make sure it was done instead of
3 having the auditor scrambling in the last 24 hours to
4 get it together.

5 On something this important, with GAO watching
6 us as closely as they're watching us and Congress
7 watching us as closely as they're watching us, we as a
8 board have a responsibility to make sure that these
9 kinds of things are scrutinized. And I think in the
10 future we really ask that management really stay on top
11 of these kinds of requests, particularly as they relate
12 to financial errors.

13 MR. FUENTES: Mr. Chairman?

14 CHAIRMAN MCKAY: Tom?

15 M O T I O N

16 MR. FUENTES: Mr. Chairman, I want to add my
17 voice to that. I certainly share your concerns, and I
18 think they're well articulated. And I want to share my
19 disappointment that this matter has to be brought up in
20 this fashion again.

21 To express the concern of the finance
22 committee in this matter in a more formal fashion, to

1 make sure that it doesn't in any way slip, I would like
2 to move that the finance committee refer this matter
3 formally to the audit committee and respectfully
4 request, Herb, that it be agendized on your agenda
5 today when it comes time to approve the agenda, and
6 that the audit committee formally address it Because
7 it's really their responsibility.

8 I commend you, Mike, for bringing it up here.
9 But I think that it needs to be addressed and put in
10 the minutes that the board, its finance committee, and
11 its audit committee is on top of this.

12 And so I would so move a referral of this
13 matter specifically and a respectful request of the
14 audit committee to agendize this today, discuss it, and
15 to report action to the full board.

16 CHAIRMAN MCKAY: Thank you. Herb?

17 MR. GARTEN: Very briefly, I want to put this
18 all in the context of how it arose. And of course, I'm
19 anxious to hear what Nancy Davis and her assistant, who
20 worked on this audit, recalls as to what took place.

21 I had to leave the finance committee meeting
22 before it was concluded because they were all waiting

1 for us in a conference room, Nancy Davis, her staff,
2 and Charles. And David was present at this conference
3 also.

4 Nancy Davis among other things said, we would
5 like to know anything unusual that took place that we
6 should be looking at, or words to that effect, during
7 the course of our audit. And at that point, I
8 mentioned this very matter to her.

9 What happened after that with respect to the
10 audit, I'm not certain. I'm anxious to hear the
11 report. But that's what took place. And certainly our
12 audit committee will get on this.

13 CHAIRMAN MCKAY: Thank you. Anything further?

14 (No response.)

15 CHAIRMAN MCKAY: Next item on the
16 agenda -- thank you, gentlemen -- next item on the
17 agenda is public committee. Is there any public
18 comment on anything that we've discussed today, or
19 anything else?

20 (No response.)

21 CHAIRMAN MCKAY: Next item on the agenda is
22 consider and act on other business. Is there any other

1 business?

2 (No response.)

3 CHAIRMAN MCKAY: Next item is consider and act
4 on adjournment of the meeting.

5 M O T I O N

6 MR. FUENTES: Move to adjourn.

7 CHAIRMAN MCKAY: Second?

8 MS. BeVIER: Second.

9 CHAIRMAN MCKAY: All those in favor say aye.

10 (A chorus of ayes.)

11 CHAIRMAN MCKAY: Opposed?

12 (No response.)

13 CHAIRMAN MCKAY: We're adjourned. Thank you
14 very much.

15 (Whereupon, at 12:07 p.m., the committee was
16 adjourned.)

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