

1 STAFF AND PUBLIC PRESENT:

2 Helaine M. Barnett, LSC President

David L. Richardson, Treasurer and Comptroller

3 Patricia D. Batie, Manager of Board Operations

Karen M. Dozier, Executive Assistant to the President

4 Mattie Condray, Senior Assistant General Counsel

Thomas Polgar, Director, Office of Government Relations

5 and Public Affairs

Karen Sarjeant, Vice President for Programs and

6 Compliance

Richard (Kirt) West, Inspector General

7 Laurie Tarantowicz, Assistant Inspector General and

Legal Counsel

8 Joel Gallay, Special Assistant to the Inspector General

David Maddox, Assistant Inspector General for Resource

9 Management

Ronald (Dutch) Merryman, Office of the Inspector

10 General

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

11 Don Saunders, National Legal Aid and Defenders

Association (NLADA)

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

2 CHAIRMAN McKAY: Since we are already 50
3 minutes behind schedule, we'd probably ought to get
4 moving. And I'll call into session the Finance
5 Committee meeting. My name is Mike McKay, chair.

6 And the first item on the agenda is the
7 approval of the agenda.

8 M O T I O N

9 MR. GARTEN: So moved.

10 MR. FUENTES: Second.

11 CHAIRMAN McKAY: All those in favor?

12 (A chorus of ayes.)

13 CHAIRMAN McKAY: Opposed?

14 (No response.)

15 CHAIRMAN McKAY: And I recognize the
16 President, who wants to make a brief comment.

17 MS. BARNETT: It is with great sadness that I
18 report that Charles Jeffress is not with us at this
19 meeting, the chief administrative officer of the
20 Corporation, because of the passing of his dear father
21 on Thursday evening. I'd like just to take note of
22 that. And I know that the entire board extends their

1 sympathies and condolences to him upon the loss of his
2 father.

3 CHAIRMAN McKAY: Thank you, Helaine. And
4 we're obviously sad to hear that news, and our thoughts
5 and prayers are with Charles and his family.

6 MS. BARNETT: Thank you.

7 CHAIRMAN McKAY: The second item on the agenda
8 is approval of the minutes for our April 29 meeting.

9 M O T I O N

10 MR. FUENTES: Move approval.

11 MR. GARTEN: Second.

12 CHAIRMAN McKAY: All those in favor?

13 (A chorus of ayes.)

14 CHAIRMAN McKAY: Opposed?

15 (No response.)

16 CHAIRMAN McKAY: Thank you. Third item -- and
17 for the record, the motion passes.

18 The third item is presentation perform LSC's
19 financial reports for the third quarter ending June 30,
20 2006.

21 Mr. Richardson, thank you. You're already at
22 the table.

1 MR. FUENTES: Mr. Chairman?

2 CHAIRMAN MCKAY: Mr. Fuentes?

3 MR. FUENTES: If I may, just before we begin,
4 could we clarify the membership of the committee, who
5 is member and who not member?

6 CHAIRMAN MCKAY: President Barnett will share
7 that with us.

8 MS. BARNETT: The Finance Committee members
9 appointed by Chairman Frank Strickland are Mr. McKay,
10 chairman; Professor BeVier; Mr. Fuentes; Mr. Garten;
11 Mr. Meites; Ms. Singleton.

12 CHAIRMAN MCKAY: So yes, you are a member,
13 Mr. Fuentes.

14 MR. FUENTES: No, no. I knew I was a member,
15 however hard we may have tried.

16 CHAIRMAN MCKAY: I knew you knew. It was a
17 cheap shot. I apologize.

18 So we're on the third item of the agenda. And
19 I want to first make sure that every member of the
20 committee has the latest memorandum that Mr. Richardson
21 will be addressing. And I want to confirm as well that
22 I have the latest memorandum. That's dated July 24th.

1 David, is that the latest memorandum?

2 MR. RICHARDSON: Yes, sir. It is.

3 CHAIRMAN McKAY: And does every committee --
4 every member of the board have a copy? If not, Pat has
5 extra copies or Karen has copies to hand out.

6 And I'd like to invite to the committee's
7 attention the convenient format in this memorandum. It
8 identifies not just the topic but the agenda item so
9 you can easily follow David and whoever else is
10 addressing us throughout today's meeting.

11 So David, thanks. If you can address the
12 financial report.

13 MR. RICHARDSON: Okay. For the record, my
14 name is David Richardson, and I'm the treasurer and
15 comptroller of the Corporation.

16 The information that is before you with the
17 memo dated July 24th is the nine-month review for the
18 Corporation's finances. I'd like to start this by
19 saying that when we get into our internal budgetary
20 adjustments that are described on the second page, they
21 are already incorporated into the spreadsheets because
22 according to our guidelines, the president and the

1 inspector general have the authority to make those type
2 of adjustments. So I just wanted to clarify that.

3 The information that's before you shows you
4 that we are considerably under budget. Within the
5 delivery of legal assistance, we have monies still to
6 be awarded. In our basic field, because of one grantee
7 who is on month-to-month funding, is principally the
8 amount that is left that.

9 The U.S. Court of Veterans Appeals, we have
10 the administrative money that has not yet been totally
11 charged for this year, so there's a variance there.

12 And then the grants from other funds, which we use to
13 handle emergency situations and one-time grants, we've
14 had no awards there this year so all of that money
15 remains available.

16 And then the technology funds is for the
17 awards which the Office of Program Performance is well
18 underway, and we hope to have that full amount awarded
19 before September 30th.

20 Under management and administration, we are
21 currently 16.52 percent under budget, and currently we
22 have \$1.83 million as a variance through this nine-

1 month period. That's about the same that we had last
2 year at this time.

3 With the loan repayment assistance program,
4 you'll see the footnote there. We have 102,000 of LRAP
5 accounts receivable. Those will be forgiven and
6 therefore recognized as an expense next year when the
7 recipients meet their agreement terms. We have one
8 person who had to withdraw on good terms, and due to
9 the terms of the agreement, we were able to forgive a
10 part of that loan this year. So there is the \$2,600
11 that is expensed this year.

12 For the inspector general, they are 14.44
13 percent under budget at this point, and therefore under
14 budget in all their categories in their total budget
15 also.

16 We have rolled within our financial report, as
17 I stated up front, the internal budgetary adjustments
18 for this period. We had a number of small adjustments
19 that had to be made to adjust for our operating
20 experience.

21 One was in my office because we lost an
22 employee early in the year and we have not yet replaced

1 that employee. So we're moving \$14,000 of their
2 personnel compensation and benefits into a temporary
3 operating line to continue the employment of a
4 temporary agency personnel. We are at this point
5 interviewing for a replacement, and hope to have that
6 done by September 1st.

7 And there's another small adjustment, just
8 \$3,000, to cover some additional paper costs and
9 supplies costs that we're transferring to accommodate
10 that need also. All this is being done within the
11 budget.

12 The Office of Program Performance, there's an
13 amount of \$20,591. We've had a couple of temporary
14 employees the last year that we have decided to hire as
15 full-time employees. So we're moving money from our
16 temporary employee line to personnel compensation to be
17 able to accommodate that hire.

18 Within the Office of Information Management,
19 we have \$10,000 we're trying to improve our interface
20 with our recipient programs. So each year it will be
21 to try to go through and identify some things that will
22 help speed up the process and streamline the process

1 for the competition initiative. And this money will go
2 toward that.

3 There is one amount of \$30,000 that we
4 transferred from our special -- our contingency fund,
5 and we did that to accommodate the purchase of a new
6 server so we could consolidate and get in tune with the
7 more advanced computer and software to speed up our
8 process within our information management system.

9 Also, at the bottom of page 2 going to page 3,
10 there's the information that has been supplied to me
11 from our inspector general. They have expended, to
12 date -- well, actually, they're -- let me back up.

13 We did our review based on May. So you'll see
14 that to date, he's spent 1.824 million. The memo
15 speaks to 1,635,000. That was the spending at the end
16 of May. He's based his review on that. He's projected
17 his spending, and he's also projected a carryover in
18 excess of \$207,000.

19 The inspector general also made his internal
20 budgetary adjustments to increase temporary employee
21 28,000, their operating expenses 3,500. Of course,
22 compensation 14,000, personnel benefits by 3,500, and

1 consulting 1400 were reduced -- 14,000 were reduced.

2 The adjustments were needed -- the 28,000, the
3 largest one, was needed to extend the detail of the
4 acting inspector general for audit, who currently
5 supports the ongoing OIG activities, including the
6 inquiries by members of Congress and review of the work
7 of the independent auditors.

8 The \$14,000 reduction in each of the personnel
9 compensation and consulting lines was available due to
10 delay in hiring or an associate counsel, and compliance
11 auditing consulting funds available were due to the
12 unexpected volume of headquarters work so those
13 consultants were not hired.

14 There's other minor adjustments there, also in
15 that office, that was under 5,000. All of these fall
16 within our guidelines to allow the inspector general to
17 make those adjustments.

18 CHAIRMAN McKAY: Thank you. Any questions for
19 Mr. Richardson?

20 MR. FUENTES: Mr. Chairman?

21 CHAIRMAN McKAY: Mr. Fuentes.

22 MR. FUENTES: David, on page 1, third

1 paragraph, it says, "All of the basic field programs
2 funds have been committed except for \$305,000, which is
3 reserved for one grantee that is on month-to-month
4 funding, and for the final audit of a former grantee."

5 Can you tell us how that breaks down? This
6 morning I thought we may have heard about this month-
7 to-month, but I think it was a long way from the
8 305,000 figure when I asked about it.

9 MR. RICHARDSON: The program that we're
10 talking about has an award of 611 for the year.
11 They've received about half of their money through this
12 point. There's \$12,000 of this 305 that is set aside
13 for the final audit of a program that is no longer an
14 LSC recipient. But the remaining 297,000 would be for
15 that one program who's on month-to-month finance.

16 MR. FUENTES: Can we get some clarification?
17 Are we talking about the same thing?

18 MR. RICHARDSON: Yes, we are.

19 CHAIRMAN McKAY: For the record, we're talking
20 about Wyoming. We're tiptoeing around this. Let's
21 make sure there's no misunderstanding.

22 Do you need clarification, Tom?

1 MR. FUENTES: Well, I just didn't quite
2 understand how that matches up with what was said this
3 morning.

4 CHAIRMAN McKAY: Maybe Karen can come up and
5 address that.

6 MS. SARJEANT: I think the --

7 CHAIRMAN McKAY: Could you please identify
8 yourself for the record?

9 MS. SARJEANT: I'm Karen Sarjeant, vice
10 president for programs and compliance at LSC.

11 I think the reason for the budget amount is
12 that programs receive their money on a calendar year
13 basis, and we're halfway through the calendar year in
14 terms of the grant amounts being paid out.

15 They have been -- they have received their
16 grant through July. They have not received August yet,
17 so the remaining months would be that figure.

18 MR. FUENTES: So the size of the program is --
19 from us, our funding, is more in the \$600,000 a year
20 range?

21 MS. SARJEANT: 611, approximately.

22 MR. FUENTES: Thank you.

1 CHAIRMAN McKAY: Thank you, Karen.

2 MS. PHILLIPS: Mr. Chair?

3 CHAIRMAN McKAY: Yes, please.

4 MS. PHILLIPS: Even though I'm not a member, I
5 have some question.

6 CHAIRMAN McKAY: You're welcome to do so.

7 Thank you.

8 MS. PHILLIPS: And I don't know if this is the
9 right time to ask.

10 But David, how many vacancy -- vacant
11 positions are there?

12 MR. RICHARDSON: As of today, there is --
13 well, let me back up. The memo talks about twelve
14 positions that are currently open, and we have one
15 person who is on an extended medical leave. We hired
16 one person, who started last Monday, and we've got
17 another person starting on Tuesday.

18 MS. PHILLIPS: So there's ten that would be
19 open?

20 MR. RICHARDSON: There are ten at this point.

21 MS. PHILLIPS: Why haven't the positions been
22 filled?

1 MR. RICHARDSON: We have been actively
2 recruiting only a portion of these. The memo talks
3 about six positions are currently being recruited.
4 Four positions are being evaluated prior to being
5 advertised to determine if they're actually needed in
6 those offices.

7 It's just taking time to be able to get people
8 in. We actually had hired two other people in our
9 compliance. Both of them withdrew after a time,
10 decided not to take the positions. So we had to go
11 back and start recruiting again.

12 MS. PHILLIPS: And at the end of the year, at
13 the end of the fiscal year, how much money that won't
14 be spent is due to the vacancies?

15 MR. RICHARDSON: Well, as reported, we have a
16 variance of 1.8 now. Of that, there is -- refer to my
17 notes here -- we are currently -- a million dollars of
18 that variance is attributed to salaries. That will
19 probably go to a million four to a million five, in
20 that range, for the open positions.

21 MS. PHILLIPS: Okay. And for merit increases,
22 other than yearly cost of living adjustment and locale

1 pay, are merit increases being given to staff?

2 MR. RICHARDSON: We have not had merit
3 increases. As you said, we've had cost of living and
4 an increase in our locality. There's been a few other
5 adjustments to pay that different office directors and
6 the president have made.

7 MS. PHILLIPS: And when was the last time
8 merit increases were given to the staff?

9 MR. RICHARDSON: I think it was 2003, I think,
10 was the last year. Perhaps 2002 was the last year that
11 merit, actual merit pay, was paid.

12 MS. PHILLIPS: Okay. And then I have one more
13 question. For the magazine, the EJM magazine, when I
14 was a nominee, I had heard that the magazine would pay
15 for itself.

16 How much money is generated from the magazine
17 a year?

18 MR. RICHARDSON: Currently, there is no
19 advertising income for the magazine. It is not self-
20 sustaining. It's totally paid through -- by the
21 government affairs budget, and then whatever offices --
22 we have a few offices that are helping, writing

1 articles and editing articles. But it's totally within
2 the budget of management and administration.

3 MS. PHILLIPS: And how many people are working
4 with the magazine, on the magazine, for the magazine?

5 MR. RICHARDSON: That information I do not
6 have. I know that we have a communications director.
7 There is an assistant in the area who is helping edit
8 and writing articles. We have people outside the
9 organization, from our grantee programs and other
10 areas, that are writing articles.

11 And then there's a committee within the
12 Corporation who sits down and reviews the articles and
13 decides who's writing what. But I do not know who's on
14 that committee at this point.

15 MS. PHILLIPS: Thank you.

16 CHAIRMAN MCKAY: Any other questions?

17 MR. GARTEN: Yes. David, what is the reason
18 for the substantial difference in board of directors,
19 actual versus budget?

20 MR. RICHARDSON: Okay. We budget the four
21 meetings a year. We also budget for the September
22 Finance Committee meeting. We also budget for hearings

1 on the Hill, which have not occurred this year. So
2 that money just -- it remains in the budget because
3 it's not needed at this point.

4 Certainly this meeting will be charged to it,
5 and last week we actually got a few expenses from the
6 prior board meeting, which will go to reduce this also.
7 And then, of course, we have the September finance
8 meeting, which will carry down. But by no means will
9 all this money be spent.

10 MR. GARTEN: It will be on the budget?

11 MR. RICHARDSON: Absolutely.

12 CHAIRMAN McKAY: Any other questions?

13 (No response.)

14 CHAIRMAN McKAY: Thank you very much. We'll
15 move on to item 4 of the agenda. And that is
16 considering and acting on fiscal year 2006 revised
17 consolidated operating budget.

18 David.

19 MR. RICHARDSON: Okay. If I could, let me go
20 back and just state something that you had asked us to
21 look at the last meeting, actually two items. And
22 that's covered on page 4 of our memo, follow-up to the

1 April meeting.

2 We have discussed a number of issues that we
3 have addressed, the first being the draft of the
4 guidelines, which we'll handle later. But we've also
5 addressed a change in our meal per diem allowance.
6 We've deleted the special exemption that was in the
7 guidelines for the board at 200 percent.

8 And we've also adopted the federal meal and
9 incidental deduction amount so that we will more
10 closely follow/trace the federal guidelines. So we
11 would make sure that you are aware of that. And that
12 will be -- that went into effect actually last Monday.

13 Additionally, you had asked us to look at the
14 IT consulting information. We've done that. In the
15 bottom of the report it talks about that we've reduced
16 that contract from 50,000 to 37,500. We've spent
17 12,000 thus far, and actually the director tells me
18 that it looks like we will be spending in the
19 neighborhood of 25,000. So it's even further reduced
20 than we originally thought.

21 CHAIRMAN McKAY: So at our meeting three
22 months ago where we were talking about the \$50,000

1 expenditure, you think it will be closer to 25 when
2 it's all said and done?

3 MR. RICHARDSON: That is correct, sir.

4 CHAIRMAN McKAY: Thank you. Well done.

5 Anything further? I didn't want to cut you
6 off.

7 MR. MEITES: Question.

8 CHAIRMAN McKAY: Yes, sir. Mr. Meites.

9 MR. MEITES: What is the schedule used by the
10 federal government for per diems on meals? Is it a
11 dollar amount per day? Per meal? Per week?

12 MR. RICHARDSON: It's actually a dollar amount
13 per day.

14 MR. MEITES: So if I eat one meal a day -- if
15 I eat three meals a day and choose to aggregate them,
16 as long as the total of my expenditures for the day is
17 under the minimum, that's okay?

18 MR. RICHARDSON: That's correct.

19 MR. MEITES: And if I choose to spend more but
20 only report the maximum, that's okay?

21 MR. RICHARDSON: That's okay also.

22 MR. MEITES: Thank you. Could you provide us

1 with that schedule?

2 MR. RICHARDSON: Absolutely.

3 MR. MEITES: Thank you. Can I ask why we
4 changed our policy?

5 MR. RICHARDSON: When we got our House
6 appropriation language this year, in the conference
7 report it asked us to review our policies and
8 procedures, and where we needed to make changes to come
9 more closely to the federal travel regulations, we were
10 asked to do so after evaluating.

11 We've done that and we're moving closer to
12 those federal directives.

13 MR. MEITES: If I had, as I did today, ate
14 lunch here and breakfast here and then have dinner, how
15 am I supposed to know how much I have left to spend for
16 dinner?

17 MR. RICHARDSON: The meals and incidental
18 expense table is in the guidelines which will be
19 provided to you.

20 MR. MEITES: No. But you didn't answer my
21 question. I don't know how much my breakfast and lunch
22 cost.

1 MR. RICHARDSON: It does not matter because
2 what happens, with the schedule, you may -- I'll just
3 say for this city; I don't know the exact amount, but
4 just say the per diem is \$54. You may have \$12 for
5 breakfast, 17 for your lunch, \$3 incidental cost, and
6 the remaining is for your dinner.

7 So it doesn't matter if we would pay \$18. You
8 would be subtracting the amount that's in the table.

9 MR. MEITES: But my problem is I don't know
10 how much you're charging me for my hotel breakfast and
11 lunch. So I have no idea, if I were to go out for
12 dinner tonight, how much I have to spend.

13 And the last thing in the world I'd want to do
14 is file a false report. And certainly if I file a
15 false report out of ignorance, that is even worse than
16 filing it intentionally, as far as I am concerned,
17 because I lack mala in se, but I've still committed
18 potentially a federal crime. And I really would hate,
19 Mr. Richardson, for you and this organization to get me
20 in any trouble with anyone.

21 So I would like you to provide me the exact
22 amount that I spent for breakfast and I spent for lunch

1 in case I choose to bill you for dinner.

2 MR. RICHARDSON: Okay. I think more back to
3 the point is we may pay, as I said, \$20 --

4 MR. MEITES: But I don't know how much you
5 pay, sir. And so I don't know how much is left at the
6 end of my day to spend on my dinner.

7 MR. RICHARDSON: That's what I'm getting to.
8 If we pay \$20, you only need an offset by the amount
9 that's in the table, which is \$12, which we will be
10 providing to you.

11 MR. MEITES: No. It has to -- sir, let's take
12 yesterday. Okay? And let's assume I was here all day
13 yesterday. And I went out for dinner last night.
14 Okay? And I ordered an appetizer and a main course.
15 Now, I thought I would.

16 Looking at the menu, I notice the prices for
17 the appetizer and the main course. Now, I would
18 certainly not want to violate any guidelines. But in
19 order to determine how much I had to spend for dinner,
20 wouldn't I have to know how much I'd already spent, or
21 you'd spent on my behalf, for breakfast and lunch?

22 MR. RICHARDSON: No, sir. You would not.

1 MR. MEITES: Pardon me?

2 MR. RICHARDSON: You would not.

3 MR. MEITES: Okay. Tell me why I wouldn't.

4 MR. RICHARDSON: Because you would refer to
5 the table. And the table would say, you only deduct
6 \$15. You would not deduct the amount that we paid for
7 the meal. The table gives you a stated amount that you
8 would reduce your meal allowance by.

9 MR. MEITES: So if I were to take all
10 breakfast -- what you're -- if I understand what you're
11 saying is that I can ignore what you spent on feeding
12 me?

13 MR. RICHARDSON: That is correct, sir. In
14 your -- Pat has just handed me your personal business
15 travel log. The information that is contained in that
16 shows that your breakfast would be a \$10 deduction for
17 this area. Your lunch would be a 15. And then your
18 dinner would be 26.

19 If you -- so it doesn't matter if we spent \$20
20 for your breakfast. You only would subtract \$10.

21 MR. MEITES: And do I receive that travel log?

22 CHAIRMAN McKAY: Let me exercise the

1 prerogative of the chair and --

2 MR. MEITES: Okay. You can see that at least
3 I am very confused about what I am permitted to bill.

4 CHAIRMAN McKAY: Indeed. And I'm not sure if
5 that confusion can be eliminated in the next two or
6 three minutes.

7 Since we're already behind schedule, let me
8 make a suggestion, and subject to the veto of Mr.
9 Meites, is that we set aside some time at our next
10 meeting, either this committee or to the full board, on
11 a presentation of this, a training session on the new
12 guidelines.

13 Because I'm still confused. I know what's in
14 your head. It's not yet satisfactorily being
15 communicated, certainly to me and I guess to Mr. Meites
16 and perhaps other members.

17 But I'd propose, since we're behind schedule,
18 that either, A, we get something in writing ahead of
19 time, which are probably going to be mind-numbing. I
20 would prefer that we get something, maybe carve out a
21 ten- or twelve-minute presentation on how the per diem
22 works at our next meeting, if that would be acceptable

1 to you.

2 MR. MEITES: That's perfectly acceptable.

3 Thank you.

4 MS. SINGLETON: But Mr. Chair, for purposes of
5 filling out expenses for this meeting, on page 7 of the
6 part that's called Personal Business Travel, it has
7 Providence, Rhode Island, deduct from the per diem
8 these amounts if we were provided with breakfast or
9 lunch. That's what we're supposed to do. Correct?

10 CHAIRMAN MCKAY: That's been there. That's
11 what I understand. But I still think it's confusing.
12 I'll tell you what happens in my office.

13 MS. SINGLETON: I'm not disagreeing with you
14 on that point.

15 CHAIRMAN MCKAY: I just have -- there's
16 someone in my office that's assigned to call David or
17 someone in there to make sure what we fill out is
18 correct. And I think it would be nice for us to have
19 an independent understanding of how it works.

20 MR. FUENTES: Mr. Chairman?

21 CHAIRMAN MCKAY: Yes, Mr. Fuentes?

22 MR. FUENTES: I got an e-mail that said Herb

1 was buying.

2 (Laughter.)

3 CHAIRMAN McKAY: Then we can strike that item
4 from the agenda and extend our deep appreciation to
5 Mr. Garten.

6 But if it's all right --

7 MR. MEITES: That's fine. Please.

8 CHAIRMAN McKAY: -- let's move ahead. Can we
9 move on to item 4 on the agenda. And hopefully
10 everyone has had a chance to read that section on the
11 middle of page 3. But can you briefly summarize?

12 MR. RICHARDSON: Yes.

13 CHAIRMAN McKAY: David.

14 MR. RICHARDSON: When we put together the
15 budget for this year, we had estimated an amount of
16 \$89,000 for grant recovery. It was actually \$89,600.
17 Through the end of June, we've actually received
18 \$139,500.

19 To be able to use that money in case there is
20 an emergency, we need to move that money into our
21 consolidated operating budget. So the resolution that
22 is before you is to increase our budget from the

1 \$332,714,840, increase it the \$49,900 additional money
2 that we've received, and increase our budget to
3 \$332,764,740.

4 CHAIRMAN McKAY: Which reflects the increase,
5 unanticipated additional revenues, of \$49,900.

6 MR. RICHARDSON: Yes, sir.

7 CHAIRMAN McKAY: If I can invite the
8 committee's attention to page 105 of our book, it
9 contains a reason that would -- that we are called upon
10 to recommend to the full board for consideration.

11 Do I hear a motion?

12 M O T I O N

13 MS. BeVIER: So moved.

14 MR. FUENTES: Second.

15 CHAIRMAN McKAY: All those in favor?

16 (A chorus of ayes.)

17 CHAIRMAN McKAY: Opposed?

18 (No response.)

19 CHAIRMAN McKAY: Any other -- well, I guess
20 it's a little too late to ask questions. But I don't
21 want to rush through this.

22 If that's all right, let's move on to item 5

1 of the agenda, which is the report on the status of
2 fiscal year 2007 appropriations.

3 Yes, Tom. Mr. Polgar is here. And while we
4 are very excited about the way things are going, most
5 of us have an independent understanding of how things
6 are going. And we are behind schedule, but we do want
7 to at least get a brief summary of how things are going
8 once again.

9 MR. POLGAR: Okay. Thank you. For the
10 record, my name is Tom Polgar. I'm director of
11 government relations and public affairs for LSC.

12 On June 27th, the full House voted by 237 to
13 185 to increase LSC's appropriations to \$338.9 million.
14 That amount is 12.4 million over the FY '06 budget, and
15 it's actually 25 million more than what the House
16 Appropriations Committee had recommended.

17 The bill subsequently moved to the Senate. On
18 July 13th, the Senate Appropriations Committee, on a
19 voice vote, recommended an increase in the LSC budget
20 to 358.5 million, which is 32 million over the '06
21 amount.

22 We're modestly optimistic that the Senate,

1 full Senate, will not disturb the Senate Appropriations
2 Committee recommendation. And then some time in the
3 fall -- we couldn't tell you whether it will be late
4 September or October or even November -- they have to
5 go to conference with the House and resolve the
6 difference between the 358 and \$338 million amounts.

7 And that's my report.

8 CHAIRMAN McKAY: Thank you very much. Any
9 questions?

10 (No response.)

11 CHAIRMAN McKAY: Thank you. Good work. Tom,
12 I do have one request. Obviously, things are moving in
13 the right direction. We're very grateful for your good
14 work here.

15 I think we'd like to be kept apprised on an
16 intermittent basis. And so to the extent that you
17 inform President Barnett about developments,
18 particularly when you do so in writing, could you blast
19 an e-mail to us, that is, the entire board? It doesn't
20 need to be more than three or four sentences.

21 But some of us find out from our colleagues in
22 our states about how things are going, or from the

1 Brennan Center. And I just think it would be nice if
2 you could keep us a little more informed, particularly
3 if there's something we can do independently to help.

4 MR. POLGAR: Okay. I will certainly do my
5 best. As you know, we started that practice with the
6 House action and with the Senate committee action in
7 this last quarter. So we'll continue to do it and try
8 expand on that.

9 CHAIRMAN MCKAY: I appreciate that. Thank
10 you.

11 Any other questions or comments?

12 (No response.)

13 CHAIRMAN MCKAY: Thank you.

14 Next item is No. 6, consider and act on
15 adoption of fiscal year 2007 temporary operating
16 authority, effective October 1, 2006. David. That
17 issue is addressed at the bottom of page 3 of our
18 memorandum.

19 MR. RICHARDSON: Right. Using the information
20 that Tom has just provided to you, we have prepared
21 temporary operating authority to begin October 1,
22 2006 -- and there is a resolution in this regard at

1 page 106 -- for us to begin operations for the new year
2 based on a freeze funding level.

3 If we would operate under a continuing
4 resolution going into the next year, which we've done
5 in the past, it is reflected that we use the lower of
6 the House or Senate number or the prior year
7 appropriation. Since we're looking at increases
8 possibly for next year, we have adopted a freeze budget
9 based on last year's funding. And this will be our
10 operating level for the first month.

11 At October, we will come back to you with a
12 temporary operating budget more reflective of the
13 information that we have. But basically, at this point
14 we're asking that you approve temporary operating
15 authority to begin October 1 on a status quo basis.

16 CHAIRMAN MCKAY: Questions?

17 M O T I O N

18 MR. FUENTES: Move the approval.

19 MR. GARTEN: Second.

20 CHAIRMAN MCKAY: And that is approval of the
21 resolution on page 105, recommending to the full board.

22 MR. FUENTES: 106, isn't it?

1 CHAIRMAN McKAY: Excuse me, 106.

2 All those in favor say aye.

3 (A chorus of ayes.)

4 CHAIRMAN McKAY: Opposed?

5 (No response.)

6 CHAIRMAN McKAY: It passes. Thank you very
7 much.

8 MS. SINGLETON: Mr. Chairman, consistent with
9 your practice on the last vote, I have a question.

10 CHAIRMAN McKAY: Yes, please. Now that we've
11 voted, go ahead.

12 (Laughter.)

13 MS. SINGLETON: Right. Tom, when do you
14 expect we might actually get the budget out of Congress
15 and the President for fiscal year 2007? Any
16 predictions this year?

17 MR. POLGAR: With it being an election year,
18 it could be anywhere from -- it will either happen by
19 mid-October or it won't be until after the election.
20 Fortunately, we have it a little easier with these
21 continuing resolutions than federal agencies normally
22 do because our grantees are on a calendar year. So

1 they're getting paid out of '06 money through the end
2 of December. And so as long as we get it before the
3 end of December, it doesn't disrupt grantee operations
4 at all.

5 MS. SINGLETON: Thank you for that
6 clarification.

7 MR. MEITES: Further, let us make sure we're
8 operating on the same page. Fiscal year 2007 is
9 October 1 -- begins October 1, 2006. Is that correct?

10 MR. POLGAR: Yes.

11 MR. MEITES: When was the appropriation signed
12 by the President for the current fiscal year?

13 MR. POLGAR: It was mid-November of --

14 MR. MEITES: Of '05?

15 MR. POLGAR: -- of '05.

16 MR. MEITES: Thank you.

17 CHAIRMAN MCKAY: Anything further?

18 (No response.)

19 CHAIRMAN MCKAY: Thank you.

20 Next item on the agenda is item 8 -- excuse
21 me, item 7, discussion regarding planning for fiscal
22 year 2008 budget.

1 President Barnett.

2 MS. BARNETT: As explained in my memo to you
3 of July 24th, with respect to planning for the fiscal
4 year 2008 budget, as we did for fiscal year 2007, we
5 are recommending to the committee that they recommend
6 to the board that we publish a notice for public
7 comment the first week of August requesting public
8 comments on what our FY 2008 appropriation should be.
9 And a draft of that notice is in your board book at
10 page 107.

11 Also, as we did last year, since the Office of
12 Management and Budget will be asking us to submit our
13 budget mark for fiscal year 2008 in September this
14 year, we are recommending to the Finance Committee
15 chair that the Finance Committee have a meeting in
16 September to approve the proposed budget mark for
17 fiscal year 2008. And we are recommending to the chair
18 that that meeting take place on Monday, September 18th
19 at 1:00 in the afternoon, to accommodate many members
20 off the West Coast who are on this committee.

21 CHAIRMAN McKAY: And if you could just briefly
22 describe the nature of the materials that will go out

1 to the committee members before that meeting?

2 MS. BARNETT: It primarily consists of a
3 memorandum from LSC management as to the rationale and
4 as to the breakdown by line items as to what we are
5 recommending to this committee to consist of our budget
6 mark for fiscal year '08.

7 It isn't a series of financial statements as
8 you get in our quarterly reports. It is more a
9 memorandum. And I see Tom has come to the table to
10 further clarify.

11 MR. POLGAR: Right. It was about a three-page
12 memo last year. I don't remember whether it was
13 Helaine sent it or Charles or I sent it. But it was a
14 three-page narrative memo with a table showing the
15 differences between the line items, but didn't get into
16 the level of detail with personnel and compensation and
17 travel and all the various breakdowns you have on the
18 financial tables.

19 CHAIRMAN McKAY: So it's more at 50,000 feet?

20 MR. POLGAR: That's correct.

21 CHAIRMAN McKAY: Right. Thank you.

22 MR. MEITES: Question?

1 CHAIRMAN McKAY: Tom?

2 MR. MEITES: So we are going to start the
3 process of planning for the fiscal year that begins
4 October 1, 2007 in August 2006. Do I have that right?

5 MR. POLGAR: Yes.

6 MR. RICHARDSON: That is correct.

7 MR. POLGAR: And before we know what our FY
8 '07 budget is.

9 MR. MEITES: That's all right. Okay.
10 Whatever you want us to do, we'll do. Just make sure I
11 know what we're supposed to do.

12 CHAIRMAN McKAY: And so obviously, to the
13 extent that committee members can attend that meeting
14 personally, that's great. But it's also set up so that
15 committee members can participate by phone. I as
16 chair, of course, will be there and be there ahead of
17 time to try to prepare, for two reasons, to not
18 embarrass the Corporation or myself.

19 (Laughter.)

20 MR. GARTEN: And that's at 1:00 p.m. on that
21 day?

22 CHAIRMAN McKAY: Correct, Eastern.

1 MR. GARTEN: Do you have an indication of how
2 long the meeting would take place?

3 CHAIRMAN McKAY: How long have they lasted in
4 the past? You chaired it last time, Herb. It must
5 have moved pretty quickly.

6 MR. GARTEN: I think it was quick.

7 CHAIRMAN McKAY: Yeah. And it'll be quick
8 this time. We'll try our very best. I can't
9 anticipate it lasting more than two hours.

10 MR. GARTEN: All right. I want to beat the
11 rush hour traffic.

12 CHAIRMAN McKAY: We will do that.

13 Anything else? Is that all right with
14 everyone?

15 (No response.)

16 CHAIRMAN McKAY: Very good. Thank you.

17 Item 8 of the agenda. Excuse me. Consider
18 and act on adoption of Diversified Investment Advisors
19 LSC Thrift Plan Amendment to the Definition of Section
20 414 Compensation. Is that David or --

21 MR. RICHARDSON: Yes, sir.

22 CHAIRMAN McKAY: David.

1 MR. RICHARDSON: I will take care of that.
2 Each year we have to do discrimination testing in
3 regards to our retirement program. This year
4 Diversified Investments, who basically farms this out
5 to somebody else to review, they came back and told us
6 that, okay, you've not been including the reimbursement
7 for healthcare clubs that they were paying, nor are we
8 including the health -- the insurance program that we
9 reimburse our federal employees.

10 The way to rectify this is basically, as a
11 technical adjustment, to take them out of the income
12 stream as far as the discrimination testing for the
13 retirement program. And we've been advised by
14 Diversified Investments that this is the way to go
15 about it, with a revision of the plan that is approved
16 by the board of directors.

17 CHAIRMAN MCKAY: Any questions?

18 MR. FUENTES: Mr. Chairman?

19 CHAIRMAN MCKAY: Mr. Fuentes?

20 M O T I O N

21 MR. FUENTES: Move approval for recommendation
22 of the board for adoption.

1 CHAIRMAN McKAY: And that's the resolution
2 found at pages 109 and 110 of the board book.

3 Second?

4 MS. BeVIER: Second.

5 CHAIRMAN McKAY: All those in favor?

6 (A chorus of ayes.)

7 CHAIRMAN McKAY: Opposed?

8 (No response.)

9 CHAIRMAN McKAY: The resolution passes. Thank
10 you.

11 The next item on the agenda is considering and
12 acting on adoption of revised budget procedures. Let
13 me first give a report to the committee of where we
14 are.

15 I'm sure all of you have had a chance to
16 review our current procedures and the proposed draft
17 procedures, both of which can be found in the board
18 book. You will recall that there are alternative
19 paragraphs found at paragraph 9, one proposed by
20 management, one proposed by the IG. It relates to the
21 authority of the board to review, as opposed to
22 approve, any adjustments made by the IG after Congress

1 has allocated the funds to the IG.

2 When I read the conflicting recommendations, I
3 asked Mr. Fortuno to prepare a legal opinion to assist
4 us in addressing these two proposed paragraphs. And
5 Vic did a very good job in putting something together.
6 Once I had a chance to look at it, I asked him to share
7 it with the IG's office before it was finalized to
8 assist Vic in making sure that it's the best memo it
9 could possibly be.

10 IG's office looked at it, gave Vic some
11 constructive input, and he revised the memo
12 accordingly. And you all should have received that
13 memo by now. I apologize for you getting it here this
14 late, but I think it's been a productive process
15 because -- did everyone get it, by the way? Okay.

16 Then I know that that -- Vic, did you hand it
17 out or Pat? Do you still have it or has it been handed
18 out? It should be at everyone's places. Tom is being
19 handed another copy right now.

20 MR. MEITES: Thank you.

21 CHAIRMAN McKAY: I think what I'd like to
22 report to the committee is this, and it's obviously

1 subject to the committee's approval, is this process
2 that management staff and IG staff is going through is
3 a good one, in my opinion. I don't think the subject
4 is ripe yet for our consideration because now that Vic
5 has finished his memo, the IG wants to look at his
6 analysis a little more closely.

7 We have invited the IG's -- OIG to give a
8 response, which I think we might receive. On the other
9 hand, we have three months also to negotiate still
10 further this difference of opinion. And I'll be
11 involved in that as well to hopefully resolve this
12 before the October meeting.

13 If it isn't resolved, then we'll be able to
14 address this in a more forthright way. You'll be able
15 to study Vic's memorandum, which you received this
16 morning. You'll be able to receive a reply from OIG,
17 if they choose to reply. And hopefully, preferably we
18 might not even need to address it at the next meeting.

19 Did I accurately reflect OIG's position on
20 this?

21 MR. WEST: Kirt West, inspector general. Yes,
22 you have.

1 CHAIRMAN McKAY: Thank you. So unless there
2 is a screaming objection, and particularly since we're
3 already seven minutes into the board of directors
4 agenda, I'd propose that we put this subject off to the
5 next meeting.

6 MR. FUENTES: Mr. Chairman?

7 CHAIRMAN McKAY: Mr. Fuentes?

8 M O T I O N

9 MR. FUENTES: Because the agenda speaks to
10 "consider and act on," I move to defer this matter
11 until such time as the chairman should elect to
12 re-agendize.

13 CHAIRMAN McKAY: Thank you. Is there a
14 second?

15 MR. GARTEN: Second.

16 CHAIRMAN McKAY: Comment?

17 (No response.)

18 CHAIRMAN McKAY: All those in favor?

19 (A chorus of ayes.)

20 CHAIRMAN McKAY: Opposed?

21 (No response.)

22 CHAIRMAN McKAY: Thank you.

1 Item 10, discussion of extent, format,
2 frequency, and presentation of financial information to
3 the committee. I don't know if we start with Helaine
4 or with David.

5 MS. BARNETT: I will just start and say this
6 item is on to help assure us that members of the
7 Finance Committee are receiving the financial
8 information on LSC in the format and presentation you
9 want and with the frequency you desire.

10 CHAIRMAN McKAY: Thank you. David, I know you
11 had a -- I wouldn't want to characterize it as a minor
12 point because it was my suggestion but not an overall
13 significant point, with regard to the format of the
14 documents. Perhaps you could start with that and then
15 we can open up to a larger discussion.

16 MR. RICHARDSON: Let me hand out -- and I
17 don't have enough for everybody, but maybe if I can get
18 you to share and then we can look through at this as we
19 talk through it.

20 CHAIRMAN McKAY: We'll share. And while David
21 is handing it out, I'll just briefly explain what
22 you're receiving is a spreadsheet with an additional

1 column.

2 (Pause)

3 MR. MEITES: What's the issue?

4 CHAIRMAN McKAY: We're about to explain. The
5 change is the second-to-last column. It is column --
6 it's 9, column 9, is the --

7 MS. SINGLETON: Percent of variance?

8 CHAIRMAN McKAY: Percentage of variance. That
9 is for the previous year. So you can compare it with
10 column 5. That is percentage of variance for the
11 current year. So when there's a variance, you can
12 quickly look and see, how does the variance for this
13 year, on a percentage basis, compare with the variance
14 for the previous year?

15 If there's a significant difference between
16 the two percentages, then it might be a subject for
17 further inquiry. If it's approximately the same, we
18 say, well, we're moving along at the same pace.

19 And so that was a suggestion that I made. It
20 had been in previous forms. But then when someone
21 recommended that the encumbrance column be added, which
22 I thought was a good suggestion, this percentage of

1 variance for the previous year was deleted and I asked
2 that it be put back in.

3 I'd ask that the committee take a look at it,
4 see if they feel comfortable with this format. And so,
5 going forward, we would use this format as opposed to
6 the one that we had presented to us today.

7 MR. MEITES: I know I shouldn't ask this. I
8 have to, Herb. What in the world is the encumbrance
9 column? We don't have any mortgages. We don't have
10 any liens. We don't have any security interest, any
11 body of risk. What in the world is going on?

12 CHAIRMAN McKAY: Could we please, for the
13 record, determine who asked for the encumbrance column
14 last time?

15 MR. RICHARDSON: No. Mr. Dieter asked that it
16 be included on the report.

17 CHAIRMAN McKAY: Oh, and he's gone. We can go
18 after Rob, then.

19 (Laughter.)

20 MR. RICHARDSON: An encumbrance is a contract
21 that is outstanding, something that we're expecting
22 some goods or services for.

1 MR. MEITES: Okay. That's fine.

2 MR. GARTEN: I think the value of this is
3 obvious. When you just looked at the top line, at
4 board of directors, the variance last year as opposed
5 to this year. So I think it's a good addition.

6 CHAIRMAN MCKAY: Thank you. Any other
7 comments on this point?

8 (No response.)

9 CHAIRMAN MCKAY: All right. Well, let's open
10 it up, then. And again, we want to -- we can continue
11 this discussion at the next meeting. I don't want to
12 curtail the discussion, but a gentle reminder is we're
13 eleven minutes into the board's agenda.

14 But this agenda item was added at the request
15 of committee members. And so I think it's important
16 that we spend a minute and make sure that we address
17 the questions that might have been raised by the
18 committee members.

19 Sarah?

20 MS. SINGLETON: I have a question. David, do
21 you feel as though there's any financial information
22 that the board ought to be getting that it's not

1 getting now?

2 MR. RICHARDSON: At this point, we've reduced
3 the report somewhat to accommodate different members.
4 As far as your fiduciary responsibilities, at this
5 point you're probably -- you're receiving what you've
6 asked for and it is sufficient to fulfill your
7 fiduciary responsibilities.

8 MS. SINGLETON: And do you feel that you and
9 other people that work in the area you work in have the
10 ability to tell the board the financial information it
11 needs if there were to be a problem developing?

12 MR. RICHARDSON: We've actually been
13 discussing that in the last few weeks. And yes, I have
14 been given assurances that that will not be a problem.

15 CHAIRMAN McKAY: Let me follow up, then. I
16 just want make it clear, speaking for myself but I
17 suspect the entire committee if not the entire board,
18 you should feel free and you should not feel any
19 restriction whatsoever, if at any time you're concerned
20 about information that's coming to the board, that you
21 let us know. We do want to know.

22 And if you are concerned, jeez, should I put

1 it in the report or should I not? I'd encourage you to
2 err on the side of caution and put it in the report.
3 But I don't want there to be any question about that,
4 speaking for myself.

5 Herb?

6 MR. GARTEN: David, do you have a list of all
7 the -- and timetables and deadline dates of these
8 financial reports that you issue on a regular basis?

9 MR. RICHARDSON: There's a timetable with what
10 is given to the committee. I report to management
11 monthly, by the 20th to the 25th of every month.

12 MR. GARTEN: And you have a list of what the
13 reports consist of?

14 MR. RICHARDSON: It's the same reports that
15 you get here, yes, with further explanation.

16 MR. GARTEN: Well, I'm not saying we should
17 discuss this today. But it might be that members of
18 the committee should get duplicates of those monthly
19 statements.

20 CHAIRMAN McKAY: I think that's a wonderful
21 idea.

22 MR. RICHARDSON: Okay.

1 CHAIRMAN McKAY: Okay. So are you
2 recommending it go to every Finance Committee member?

3 MR. GARTEN: Yes.

4 CHAIRMAN McKAY: Okay. I think that's a good
5 idea. What does everyone else fee?

6 MS. BeVIER: It certainly can't hurt. It may
7 not be that we absolutely need that, but it might be a
8 good idea to see if we feel more comfortable when we
9 get it.

10 MR. GARTEN: I think it would be worthwhile.

11 CHAIRMAN McKAY: And, you know, sometimes,
12 recognizing we all have a job on the side outside of
13 LSC, if at any time you submit a report to us, one of
14 those monthly reports, and there's something in
15 particular you think we ought to look at, slap on a
16 quick cover memo and say, look at this line. It
17 reflects this. Three sentences. And that will give us
18 the opportunity to focus on something that we might
19 otherwise miss.

20 MR. RICHARDSON: Okay.

21 CHAIRMAN McKAY: Anything further?

22 Mr. Fuentes, I know this is an issue you're interested

1 in. I want to make sure you feel --

2 MR. FUENTES: I think this is a substantial
3 move forward, and I think it speaks to the kind of
4 transparency that this committee is concerned about,
5 the idea of full disclosure, and the issue of
6 independence of our treasurer.

7 And I think this is -- as a line officer to
8 the board, I think this is a very positive step
9 forward.

10 CHAIRMAN MCKAY: Thank you. Any other
11 questions or comments?

12 (No response.)

13 CHAIRMAN MCKAY: Thanks a lot. Thanks for all
14 your good work, David.

15 Next item on the agenda is consider and act on
16 other business. Any other business?

17 (No response.)

18 CHAIRMAN MCKAY: Ask for public comment.
19 Public comment?

20 (No response.)

21 CHAIRMAN MCKAY: Consider and act on
22 adjournment of the meeting.

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M O T I O N

MR. GARTEN: So moved.

MR. FUENTES: Second.

CHAIRMAN McKAY: All those in favor?

(A chorus of ayes.)

CHAIRMAN McKAY: Opposed?

(No response.)

CHAIRMAN McKAY: We're adjourned.

(Whereupon, at 11:17 a.m., the Finance
Committee meeting was adjourned.)

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