

LEGAL SERVICES CORPORATION

BOARD OF DIRECTORS
AUDIT AND APPROPRIATIONS COMMITTEE MEETING

OPEN SESSION

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September 26, 1992

8:00 a.m.

The Hyatt Regency Minneapolis Hotel
The Mirage Room
1300 Nicollet Mall
Minneapolis, Minnesota

Board Members Present:

Howard H. Dana, Jr., Chairman
J. Blakeley Hall
William L. Kirk, Jr.
Jo Betts Love
Norman D. Shumway
Basile J. Uddo
George W. Wittgraf
Jeanine E. Wolbeck

Staff Present:

John P. O'Hara, President
Patricia Batie, Secretary
David Richardson, Comptroller and Treasurer
Victor Fortuno, General Counsel
Edouard Quatrevaux, Inspector General



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P R O C E E D I N G S

(8:04 a.m.)

CHAIRMAN DANA: I'd like to go on the record. Good morning, everybody. This is the 8:00 a.m. meeting of the Audit and Appropriations Committee on September 26, 1992, here in downtown Minneapolis. With me at the table are committee members Jeanine Wolbeck and Basile Uddo; fellow Board members Blakeley Hall, George Wittgraf; and the president, Jack O'Hara.

The audience contains an ever-increasing group, including the comptroller, IG, assistant IG, secretary, deputy head of MAC, and lots of other people. Joining us at the table is Jo Betts Love. I think Mr. Richardson has passed out all his materials and is about to take the seat of honor.

APPROVAL OF THE AGENDA

CHAIRMAN DANA: With that introduction, I would ask for a motion to approve the agenda.

M O T I O N

MR. UDDO: So moved.

MS. WOLBECK: Second.

CHAIRMAN DANA: Moved and seconded. Discussion?

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1 (No response.)

2 CHAIRMAN DANA: All those in favor say aye.

3 (A chorus of ayes.)

4 CHAIRMAN DANA: Opposed?

5 (No response.)

6 CHAIRMAN DANA: It's a vote.

7 APPROVAL OF THE MINUTES OF THE MEETING

8 CHAIRMAN DANA: The next item is to approve the
9 minutes of our last meeting. They appear in the Board book
10 at pages 49 to 51. Is there a motion?

11 M O T I O N

12 MR. UDDO: So moved.

13 MS. WOLBECK: Second.

14 CHAIRMAN DANA: Moved and seconded. Any additions
15 or corrections? Mr. Uddo?

16 MR. UDDO: I think on page 51 of the minutes where
17 it refers to suggestions of other places where funds may be
18 available, it doesn't include the resource training center,
19 not that that may ever happen. But, I mean, to accurately
20 reflect the minutes, I think that was mentioned in the
21 meeting as a potential source of additional funds. I don't
22 see it in the minutes.

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1 CHAIRMAN DANA: I don't either. Is that a proposal
2 that it should be added?

3 MR. UDDO: Yes, it is.

4 CHAIRMAN DANA: Without objection, that will be
5 added. With that exception, all those in favor of the
6 minutes say aye.

7 (A chorus of ayes.)

8 CHAIRMAN DANA: Opposed?

9 (No response.)

10 CHAIRMAN DANA: It is a vote.

11 CONSIDERATION AND REVIEW OF THE PROPOSED FISCAL YEAR 1993

12 CONSOLIDATED OPERATING BUDGET

13 CHAIRMAN DANA: The consideration and review of the
14 proposed fiscal year 1993 consolidated operating budget, we
15 are focusing today primarily on that aspect of the budget
16 that relates to the Corporation itself. It is the budget for
17 the fiscal year that starts, I think, on Thursday.

18 MR. RICHARDSON: That's correct, sir.

19 CHAIRMAN DANA: At our last meeting, we reviewed,
20 first of all, the request of the Corporation, the preliminary
21 request, the indicated freeze budget which is the
22 no-new-hires-but-inflationary-adjustments-normal-raises

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1 budget. That started out at \$12.5 million, or approximately
2 that. I understand that you have provided us with a revised
3 request at this time?

4 MR. RICHARDSON: Yes, sir. For the record, my name
5 is David Richardson. I'm the treasurer/comptroller of the
6 Corporation. During last Monday's meeting, we did discuss
7 and walk through the budget. We did identify a couple of
8 adjustments that needed to be made. They are incorporated in
9 this document. The revised total -- last week we were
10 looking at a budget of approximately \$12.5 million. It was
11 reduced to \$12,462,900 with attachments.

12 MR. UDDO: That's attachment D you're referring to?

13 MR. RICHARDSON: That's correct, the one on the
14 top.

15 CHAIRMAN DANA: That summary is not available
16 generally, although it could be.

17 MR. RICHARDSON: It is not. At the meetings we can
18 provide that.

19 CHAIRMAN DANA: We have just been joined by Board
20 member Bud Kirk. Since this was prepared, we have received
21 what is in the nature of a supplemental update on the IG's
22 request. The IG's request here is \$1,017,835. There has

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1 been a request to increase the consulting line by \$45,000.
2 Wrong? Excuse me, I obviously misunderstood.

3 MR. QUATREVAUX: Just for clarification, our budget
4 request is not the freeze budget plus \$45,000 in consulting
5 money but the operating budget.

6 MR. RICHARDSON: If I may, Mr. Dana, we had asked
7 the directors of the Corporation to prepare a couple of
8 budgets, one based upon a reduced funding level and with a
9 freeze, basically, in all hiring. Then we had asked them to
10 prepare another budget based upon what they felt was what
11 they needed for optimum operations.

12 I believe that request for the IG was \$1,229,000.
13 It appears that the IG is asking for \$45,000 on top of that
14 particular budget, which is not being considered at this
15 time.

16 CHAIRMAN DANA: I think the IG budget requests are
17 of a different nature in that he has an independent access to
18 the Board and there should be less filtering as a judgment
19 supplied by management to his request to the Board as
20 compared to requests from other department members. So maybe
21 if the IG would come forth -- do we have extra copies of his
22 particular requests?

1 MR. RICHARDSON: I do not have them with me.

2 CHAIRMAN DANA: You do not. Well, we should
3 understand, then, that your request is for \$255,000 more than
4 the freeze budget. I'm not sure how this \$45,000 fits into
5 that.

6 MR. QUATREVAUX: For the record, my name is Ed
7 Quatrevaux. I'm the IG, inspector general. The \$45,000 is
8 an increased consulting amount that appeared in the operating
9 budget which was a different number than appeared in the
10 freeze budget consulting figure.

11 The reason that those numbers were different was
12 because that the freeze budget was based on no new hires.
13 Thus, we needed more consulting money. The operating budget
14 has lesser amount in there. That explains the difference, I
15 think.

16 MR. RICHARDSON: If I may, Mr. Dana, I did review
17 the budget, as I review all of them that are turned in to my
18 office. As I recall, the major differences in the two budget
19 that we're speaking of is the inspector general's office
20 wanted to increase staffing levels five additional people.
21 That was the majority of the increase. It was offset.

22 In this particular budget we had a consulting line

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1 of \$75,000. In the operating budget that he's speaking of
2 there was a consulting line of \$50,000. So it was reduced
3 the \$25,000.

4 CHAIRMAN DANA: Now, assume for these purposes that
5 the Board rejects your request for five new hires and we are
6 dealing with a freeze budget, do we understand that under
7 those circumstances your consulting request has gone up by
8 \$45,000?

9 MR. QUATREVAUX: Could you repeat that?

10 CHAIRMAN DANA: In other words, you made a request
11 to the Board which is for five new hires. You have also
12 submitted a budget request or a budget as requested by the
13 Board which was on a freeze basis, no new hires.

14 MR. QUATREVAUX: Correct.

15 CHAIRMAN DANA: Before the meeting today, you came
16 up and said what you said to me which is that we have a new
17 development and I'm going to need to increase my request by
18 \$45,000 in the consulting line.

19 MR. QUATREVAUX: That's correct.

20 CHAIRMAN DANA: You understood that to be an
21 increase in the request of the larger number from \$50,000 to
22 \$95,000?

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1 MR. QUATREVAUX: I've always considered what's
2 called the operating budget as our budget request because it
3 reflects what I believe is essential to do the job. I have
4 materials here at your suggestion that explain exactly how
5 these resources would be used and why it is necessary.

6 CHAIRMAN DANA: Do those materials deal with the
7 \$45,000?

8 MR. QUATREVAUX: In part.

9 CHAIRMAN DANA: I would like to have those
10 materials. I know the committee and the rest of the Board
11 would. But let us assume, since we are going to be facing
12 Draconian budget situations this year, let us assume that we
13 exercise poor judgment and reject your request for five new
14 hires.

15 Are you saying that under those circumstances, the
16 consulting line in your request would still have to go up
17 \$45,000?

18 MR. QUATREVAUX: Well, the Board obviously controls
19 the budget. I'm not sure how to answer you other than of
20 course my office must live with the decisions reached by the
21 head in this regard. I would like the opportunity to
22 demonstrate why it is I'm requesting this amount of money,

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1 what it would be used for and what I believe the consequences
2 would be if we don't have it.

3 CHAIRMAN DANA: All right. Let's come back to
4 that. Just reviewing where we are, Mr. Richardson, do you
5 have a handout that does that, that summarizes the puts and
6 takes necessary to get ourselves down to the resources that
7 may be available?

8 MR. RICHARDSON: Yes, sir. I handed out a document
9 that identified the financing of the budget to each of you.
10 This is basically a recap and it's called "Fiscal Year 1993
11 Management and Administration Budget." This deals with the
12 financing of the budget that we discussed last Monday. It
13 does include -- I'll call to your attention at this point
14 that we were assuming a four percent increase.

15 Of course, as we found out yesterday, it is a two
16 percent increase. We could not get a by-line breakout.
17 There was a number of calls made yesterday and it's not yet
18 available to us. So the figures and the financing that we
19 had worked on are going to have to be revised.

20 For instance, the House four percent increase --
21 excuse me just a minute -- in the House four percent
22 increase, we were assuming a \$391,000 increase for management

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1 and administration. Not knowing at this time how it will
2 break out, if it does go two percent by line item, we will
3 then have to reduce this \$195,000.

4 I've identified a shortfall basically of \$87,900.
5 We will have to add \$195,000 to that shortfall that we will
6 need to finance this particular budget.

7 CHAIRMAN DANA: Now, if everybody has your memo of
8 September 23, 1992, you start with last year's fiscal year
9 amount of \$9,774,000. You add a four percent increase?

10 MR. RICHARDSON: That's correct, sir.

11 CHAIRMAN DANA: And your point is that if that
12 turns out to be a two percent increase we would have to
13 deduct \$195,000?

14 MR. RICHARDSON: That's correct. That will change
15 that total there, the \$10,165.

16 CHAIRMAN DANA: We could deduct it at the bottom
17 probably easier. We are still dealing with a 1992 carryover
18 from -- it this a total carryover?

19 MR. RICHARDSON: This was a projection that we had
20 accumulated for the Board's review. In speaking with some of
21 the directors or the president this week, we do feel that
22 there will be some additional carryover to that amount. We

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1 particularly identified -- if you will recall, we set aside
2 \$25,000 for the state support and national support for some
3 meetings that the president was having.

4 The state support meetings did occur; however, not
5 all the money was spent. The national support, there was no
6 meetings held. So this will go up some.

7 CHAIRMAN DANA: You also add back in the next line
8 something called program development which Mr. Uddo thinks of
9 as timekeeping. I had understood that, at least from a
10 tentative standpoint, we had decided not to do that, or the
11 committee certainly hadn't decided to do that.

12 MR. RICHARDSON: That was not clear as I was
13 reading through the transcript. I know that Mr. Uddo brought
14 an objection to it, looking at the timekeeping issue that has
15 been held open for quite some time. That's where the
16 discussion, as we were talking in the minutes, about the law
17 school and the national resource training center was
18 identified as possible funding sources.

19 Basically, what I had completed here was the
20 summary that we walked through last Monday and then
21 identified those additional funds that could possibly fund
22 this budget.

1 As you walk down through, we might want to
2 continue, and I'll go ahead and do that. The projection
3 construction allowance, the \$300,000 from that fund, we have
4 a deferred rent incentive which is there is a non-cash outlay
5 in this particular budget. The \$860,000 is what that amounts
6 to.

7 We also have projected the grant and interest
8 income for 1993 which is actually a part of the FY '92
9 carryover this year. So what we're doing is we're saying
10 that the money that we're going to receive in those
11 particular items will be used to finance this year's budget.

12 Your new total there at the bottom, with
13 subtracting the \$195,000, would be \$12,180,000.

14 CHAIRMAN DANA: Let me ask you a question about
15 this deferred rent incentive. What we're talking about is
16 the fact that in our existing quarters we are not paying rent
17 for the first year.

18 MR. RICHARDSON: That's correct, sir.

19 CHAIRMAN DANA: But we are paying rent in our old
20 quarters.

21 MR. RICHARDSON: That is correct.

22 CHAIRMAN DANA: Does this deferred rent incentive

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1 exist if we continue to pay rent on our old space?

2 MR. RICHARDSON: The way we have budgeted; yes,
3 sir. We have budgeted that basically a worst case scenario
4 is that we would have to pay the rent for the full year and
5 that we would then have to then start paying rent in June for
6 the new building.

7 CHAIRMAN DANA: Now, if we do rent our space, will
8 that generate cash in this budget?

9 MR. RICHARDSON: There is a possibility that there
10 could be some income from that. However, sort of leaping
11 ahead to the next agenda item, we have signed a memorandum of
12 understanding with the General Services Administration. They
13 are preparing an appraisal of the property. If the appraisal
14 comes out with a large enough figure, there could be some
15 cash coming into the Corporation.

16 There could also be a shortfall. For instance, the
17 real estate market has declined in their particular area, as
18 it has nationwide. We're paying approximately \$28 a square
19 foot now. If it comes back appraised for \$27 a square foot,
20 they would take over the lease but we would have some cash
21 outlay to make up the difference.

22 CHAIRMAN DANA: Let me make sure I understand. The

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1 budget of \$12.5 is based upon our paying, on the one hand, no
2 rent where we are for most of the year and all of the rent
3 currently being paid at Virginia Avenue?

4 MR. RICHARDSON: That is correct, sir. If we were
5 to sublet our space at Virginia Avenue, I would instinctively
6 think that that might reduce our overall rent obligations for
7 the year?

8 MR. RICHARDSON: Yes, sir. That is correct.

9 CHAIRMAN DANA: And would that money be available
10 to fund this budget or would that, in effect, reduce the
11 budget?

12 MR. RICHARDSON: It could go back into funding. It
13 would actually reduce the budget if we're, of course, not
14 paying the rent. At this point, and I think I probably
15 should -- but just say \$1.3 million in the rent and the
16 operations for 1993 is budgeted. So if we can get the
17 property subleased or signed, then we will not have that
18 expenditure.

19 I should back up. It is less than that because we
20 did back out -- because HUD is already in the space, we did
21 back out the yearly rent for them staying for 1993.

22 CHAIRMAN DANA: If I may use this exhibit as a

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1 jumping off place so that the Board and the committee
2 understands what the dynamics of this are, a freeze budget
3 with no new hires at the Corporation is approximately \$12.5
4 million.

5 If we don't receive the \$391,000 from Congress and
6 we do a little robbing Peter to pay Paul on the rent
7 situation, and we dip into sacred timekeeping funds, we can
8 raise resources sufficient to do all but \$500,000
9 approximately of the freeze budget. That is before we
10 consider the IG's request for an additional approximately
11 \$250,000.

12 MR. RICHARDSON: I think if we go back to the memos
13 -- are you saying use the \$300,000 in timekeeping?

14 CHAIRMAN DANA: If we used it.

15 MR. RICHARDSON: If we use it, using the memo, of
16 course, that we're working with here, let's go to the top of
17 the second page. What I've done is I've identified --

18 CHAIRMAN DANA: Just another matter. You have
19 also, in this proposal, indicated that we would take the
20 anticipated grant recoveries and interest income for next
21 year.

22 MR. RICHARDSON: That is correct, sir.

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1 CHAIRMAN DANA: Something that forms the bulk of
2 our carryover this year into next year.

3 MR. RICHARDSON: That is correct.

4 CHAIRMAN DANA: So we would be doubling up there so
5 that we would have, basically, virtually no carryover going
6 into '94 if we were to do that.

7 MR. RICHARDSON: That is a distinct possibility;
8 yes, sir. At the top of the second page, and maybe we can
9 summarize it, you were characterizing the \$500,000 shortfall.
10 We have at present a budget of the \$12.4 million minus out
11 the -- and I'm just going to use the existing financing that
12 we have used in the memo of \$12,375,000. There's where the
13 shortfall is identified. It's the \$87,900. In adding back
14 the \$195,000 to that figure, the shortfall would be \$282,900.

15 Now, also included in that memo, if I can summarize
16 this, the additional funding sources that -- I shouldn't say
17 funding sources -- the contingencies that we identified in
18 the budget, the \$60,966, is the amount of a contingency in
19 the basic field programs. That was the 1992 funding
20 contingency.

21 I have not increased that because, of course, we
22 don't have the funding formula completely for the basic

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1 fields programs. So we did not increase that the two percent
2 as I have the others because they're based upon a formula
3 that Congress derives and gives to us.

4 When I look at the national support and state
5 support, I've dropped in a footnote at the bottom. This year
6 the national support contingency was \$109,601. With a four
7 percent increase, this year's contingency is \$113,985.
8 Likewise, with the state support, this year's contingency was
9 \$48,847. Next year it's \$50,800.

10 Just to also bring back to memory, this year the
11 majority of this money was used to finance the meritorious
12 and innovative grants. So that's the reason that money is
13 not available in this year's particular budget.

14 I did not identify at Monday's meeting that there's
15 a small contingency in the Native American category. This
16 year it's \$42,017. That money was set aside for training for
17 M&A programs. The president went and had meetings with them.
18 There could be a small amount -- there's actually still
19 expenses being turned in for that training, but there is some
20 money left in that line that was not used.

21 Then, of course, it was just sort of mentioned in
22 passing at Monday's meeting, we have the special contingency

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1 fund in the '92 budget. It was \$97,000 with a four percent
2 increase. I need to clarify that. It would go to \$101,000.
3 These particular increases would be cut in half going to the
4 two percent.

5 I actually don't remember, but one of the Board
6 members yesterday told me that there was a distinct
7 possibility that we would lose the special contingency funds.
8 Until we get the actual line item budget, all this is
9 estimates and projections that we're working on.

10 MR. UDDO: Mr. Chairman?

11 CHAIRMAN DANA: Mr. Uddo?

12 MR. UDDO: Do we have the report that we asked for
13 about the benefits package?

14 MR. RICHARDSON: Yes, sir, we do. Ms. Dickerson,
15 from our Office of Human Resources, the director, is here
16 with some information on our benefits.

17 MR. UDDO: Would it be appropriate, Mr. Chairman,
18 to hear a little bit about that because that's certainly one
19 of the areas of possible funding that we had talked about at
20 Monday's meeting.

21 CHAIRMAN DANA: Certainly.

22 MS. DICKERSON: For the record, my name is Alice

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1 Dickerson. I'm director of the Office of Human Resources of
2 Equal Opportunity of the Legal Services Corporation. We've
3 put together some facts and figures for you. I'll try to
4 make this as brief as possible because I understand we are
5 trying to hurry through the meeting.

6 I think one thing that it would help you to be
7 aware of before I begin the presentation is that at LSC we
8 have three categories of employees for benefit purposes.
9 Employees who were hired prior to January 1, 1984, are
10 eligible for benefits, including Civil Service retirement.
11 Employees who were hired between January 1, 1984, and October
12 1, 1988, are eligible for federal benefits. They have CSRS
13 offset rather than the regular civil service retirement plan.
14 Employees who were hired on or after October 1, 1988, are
15 eligible to participate in the Corporation's private benefit
16 plans and have no eligibility at all for federal benefits.
17 At that point our employees were excluded from federal
18 benefits.

19 Because of this complex mix of employees, some of
20 our benefit costs are uncontrollable. The ones that are
21 governed by the federal government, there's nothing we can do
22 about it. Those costs just are driven by whatever the

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1 federal government is doing at that point in time.

2 CHAIRMAN DANA: Excuse me. I understand that our
3 employees fall under three categories. The prior to '84 are
4 full federal benefits?

5 MS. DICKERSON: Yes.

6 CHAIRMAN DANA: And between '84 and '88 it's sort
7 of a --

8 MS. DICKERSON: It's federal benefits, but instead
9 of the regular civil service retirement plan, those people
10 are in what is known as civil service retirement offset,
11 which means that their retirement is offset by social
12 security. People in regular civil service retirement do not
13 pay social security, have never paid social security.

14 CHAIRMAN DANA: And since then, it's more like a
15 private corporation? Employees arrive and --

16 MS. DICKERSON: Well, as of January 1, 1984, those
17 employees began to pay social security and the retirement
18 benefit was somewhat different in that it is offset by what
19 they pay into social security or by what their benefit will
20 be from social security.

21 CHAIRMAN DANA: You indicated that at least one or
22 two classes of our employees, the benefits are uncontrollable

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1 and that it is federally --

2 MS. DICKERSON: It's federal.

3 CHAIRMAN DANA: Am I correct that we are permitted
4 to leave employees under the federal system? Are we required
5 to?

6 MS. DICKERSON: The Act specifies that LSC
7 employees are federal employees for the purpose of, and it
8 names certain chapters, 83 being civil service retirement.
9 The point where that changed was in October of 1988 when
10 there was an amendment to the FERS, or federal employee
11 retirement system, which is the system that is replacing
12 civil service. That amendment excluded all of our employees
13 who were hired, transferred or otherwise commenced employment
14 on or after October 1, 1988.

15 CHAIRMAN DANA: But are we required, as a matter of
16 law, to treat the employees that were hired before that as
17 federal employees or may we do so?

18 MS. DICKERSON: I don't think that you could
19 require them to leave that. Now, we do allow them to elect
20 to leave it and we have had a number who have elected to do
21 so. At this point in time, we have 14 employees who still
22 have regular civil service retirement. We have 21 who are

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1 civil service retirement offset and 99 are in the private
2 plan.

3 Now, another thing that I think it would be helpful
4 for you to understand is that when we had designed private
5 benefit plans, we designed them in a manner to be comparable
6 to what was being offered to our employees who had federal
7 benefits.

8 CHAIRMAN DANA: So, does that mean that the costs
9 attributable to the 99 are also uncontrollable?

10 MS. DICKERSON: I wouldn't say that it's
11 uncontrollable, but it certainly would be difficult to have a
12 different level of benefits for those employees. I don't
13 know how we would attract or retain employees if we offered a
14 different level of benefits, particularly if it were a lesser
15 level of benefits.

16 CHAIRMAN DANA: Mr. Uddo?

17 MR. UDDO: Ms. Dickerson, let me ask you a
18 question. When you say federal benefits, are we just talking
19 retirement or are we talking everything?

20 MS. DICKERSON: No. We're talking health, life,
21 retirement. All of our employees come under federal workers'
22 comp. Even though they were excluded from the health and

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1 life in 1988, we still come under federal workers' comp.

2 MR. UDDO: But when you say that they're required
3 to have federal benefits, it means there's a whole array of
4 things they're required to have not just federal retirement
5 system?

6 MS. DICKERSON: Yes. I don't think I'm using the
7 words required to have; I'm saying eligible for.

8 MR. UDDO: That's what I'm trying to figure out.
9 Which of our employees are we required to give a fixed
10 federal benefits package to?

11 MS. DICKERSON: Okay. It's those employees who
12 were hired prior to January 1, 1984, those employees who were
13 hired between January 1, 1984, and October 1, 1988. Anyone
14 hired on or after October 1, 1988, is in a private benefit
15 plan.

16 MR. UDDO: So we have 36 employees that have a
17 statutorily required benefit package.

18 MS. DICKERSON: Thirty-five.

19 MR. UDDO: Thirty-five, I'm sorry, that you can't
20 make any changes in.

21 MS. DICKERSON: Right. We can't do anything with
22 those particular benefit plans because they are federal

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1 benefit plans and they are operated out of OPM, and they
2 control what happens with those benefits; for instance,
3 health insurance.

4 MR. UDDO: Ninety-nine employees have benefit
5 packages that are private and subject to change by the
6 Corporation?

7 MS. DICKERSON: That's right.

8 MR. UDDO: All right. Now, my question is -- I
9 don't share your concern that you'd have trouble attracting
10 and retaining people if the new hires were on a benefit
11 package that was different from the 35 who enjoy the federal
12 benefit package. You know, benefit packages, I think, change
13 all the time. These kinds of things aren't unusual.

14 MS. DICKERSON: I don't think it's a problem with
15 them changing. I think my comment was that if we had to
16 offer a lesser package of benefits to those individuals.

17 MR. UDDO: That's what I was going to say. I don't
18 see that that's a problem unless what you're offering them is
19 less attractive than what's in the market elsewhere.

20 MS. DICKERSON: Correct.

21 MR. UDDO: Not that there are other people at Legal
22 Services who may have better benefit packages, but are you

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1 going to offer new hires something less than what the market
2 in D.C. generally offers as a benefit package. So that's the
3 question that I was interested in last Monday and the
4 question I'm interested in today. How does the since 1988
5 benefit package compare to what seems to be the market in
6 D.C. for comparable employment?

7 MS. DICKERSON: I have some overheads that I think
8 will help to demonstrate that. We have looked at a survey by
9 the U.S. Chamber of Commerce. The one thing I would ask that
10 you keep in mind as we're looking at these figures is that
11 the survey is the 1991 survey. However, it's for the 1990
12 benefit year. The comparisons that we will show you for LSC
13 are for our costs for 1991. So you might want to keep that
14 in mind.

15 I'll try to do this without the microphone and hope
16 that everyone can hear me. The survey that we looked at for
17 nonmanufacturing corporations as part of this survey, the
18 total average benefit payments as a percent of payroll are
19 37.4 percent according to the Chamber of Commerce survey.
20 LSC's total percent of payroll is 34.5 percent.

21 If we look at the breakdown of benefits, you can
22 see that in virtually every category, mostly every category,

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1 we are less. The health insurance, which was one of the
2 areas we're particularly concerned with, LSC's percent of
3 payroll is 4.9 percent. The U.S. Chamber of Commerce study
4 is 6.7 percent.

5 MR. UDDO: Ms. Dickerson, my problem with that is
6 that doesn't tell me one of the things that I think we were
7 talking about last time. That is, what do most competing
8 companies do with respect to whether or not they pay 100
9 percent of health or only 100 percent for the employee and
10 then the employee contributes something for other dependents?

11 MS. DICKERSON: I think this will answer that
12 question. Some of the organizations that you asked that we
13 check with were the Corporation for Public Broadcasting,
14 State Justice Institute and the Farm Credit Administration.
15 You will see on the health, we do the same or less than those
16 particular organizations.

17 MR. UDDO: On the health what?

18 MS. DICKERSON: On the health insurance, for
19 instance, we pay 79 percent. ER stands for the employee
20 contribution, EE stands for employee contribution. Legal
21 Services paid 79 percent of the employer contribution. The
22 employee contribution is then 21 percent. The Corporation

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1 for Public Broadcasting pays 100 percent of health care costs
2 for their employees. State Justice is the same as Legal
3 Services and the Farm Credit Administration is the same as
4 Legal Services.

5 On dental, all of the organizations surveyed paid
6 100 percent for single coverage or employee coverage,
7 whichever way you want to call it. On family coverage they
8 are all paying 100 percent with the exception of the
9 Corporation for Public Broadcasting, which their employees
10 pay \$10 per month and the CPB then pays the balance.

11 Life insurance, we are doing the same thing as
12 State Justice and Farm Credit. The Corporation for Public
13 Broadcasting pays 100 percent. So they are better than us.

14 Disability, all of the organizations surveyed pay
15 100 percent.

16 Retirement, as you'll see, LSC's contribution for
17 employees is seven percent. The Corporation for Public
18 Broadcasting pays 12 percent of the first \$28,000 and 15
19 percent of the excess optional. State Justice, their
20 contribution is anywhere from 12.9 to 17.9. Now the State
21 Justice employees are eligible to participate in FERS. Our
22 employees are not eligible to participate in FERS. Farm

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1 Credit Administration is another example of participants in
2 FERS.

3 You had additionally asked us to look at a
4 university and some of the law firms. We surveyed the top
5 three law firms in D.C. We can't use their names because
6 they only way they would participate in the survey was if we
7 kept the information confidential.

8 MR. UDDO: How did you determine the top three law
9 firms in D.C.?

10 MS. DICKERSON: Known as the top three in D.C.

11 MR. UDDO: I saw Mr. Fax walk in before.

12 CHAIRMAN DANA: He's in Baltimore.

13 MR. UDDO: Oh, okay, he's in Baltimore.

14 MS. DICKERSON: As you can see again on the health
15 insurance, LSC is not contributing as much as these other
16 organizations. They all contribute 100 percent on the
17 employee portion. On family, there is a little difference
18 there in the distribution. But again, if you look at the
19 fact that they pay 100 percent for single coverage, one would
20 probably balance out the other or it may even come out to
21 more, depending on what the actual premiums are.

22 Dental coverage, we're right in line with everyone

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1 else. Life insurance, we're not in line with everyone else.
2 We are less. Disability, we're in line with everyone else.

3 Retirement, there, as you can see, Wayne State
4 University matches whatever the employee's contribution is by
5 50 percent. So depending on how generous that is, that can
6 be a very substantial amount. For law firm number one, that
7 information was not available. Law firm number two pays 10
8 percent. In the third law firm, they are paying 3 to 5.75
9 percent. And after their employees have paid their social
10 security maximum, they are paying an additional 11.75
11 percent.

12 I think that will give you some idea of how we
13 stack up against other organizations.

14 CHAIRMAN DANA: Thank you. Do you have that
15 information on hard copies for the committee?

16 MS. DICKERSON: I can get it for you. We don't
17 have it right now, but I can get them.

18 CHAIRMAN DANA: That would be very helpful.

19 MR. UDDO: What was the increase that was being
20 requested for benefits for next year, for '93?

21 MS. DICKERSON: We had projected an across the
22 board increase of 18 percent.

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1 MR. RICHARDSON: Thank you. In the budget the
2 departments have provided, last year we budgeted
3 20-and-a-half percent, this year 21 percent. I have actually
4 not looked at, for instance, the dental, the disability.
5 They did go up, as I recall, 18 percent, yes, for the dental.
6 And then the disability went up just slightly.

7 CHAIRMAN DANA: How do you square the 21 percent
8 with what looked like 33 percent based on salary?

9 MR. RICHARDSON: There is a couple of offsets
10 through, for instance, the salaries. We budget salaries for
11 52 weeks. An employee can earn up to four weeks of vacation.
12 However, it's balanced off because they take a part of that
13 four weeks in the year. So it's budgeted in their salary.

14 The additional amount that you see here budgeted is
15 then accumulated in the other benefits budget. For instance,
16 some employees may only take two weeks, so that additional
17 two weeks would then go into the benefits. So there's an
18 offset between the two.

19 I think if you'll recall, we did discuss that at
20 one of the meetings, where usually during the year I'll make
21 an assessment looking and working with the directors in their
22 budgets and make the accrual for any additional vacation that

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1 is unused during the year.

2 CHAIRMAN DANA: Is the partial answer to my
3 question that in the 33 and 37 percent numbers that we saw it
4 includes vacation time?

5 MS. DICKERSON: It's pay for time not worked. It's
6 more than just vacation; sick leave, holidays, all that.

7 MR. UDDO: Now, I noticed that was one area where
8 we were quite a bit above the comparative government
9 organization figures.

10 MS. DICKERSON: I don't think I gave you a
11 comparison for the federal government. I don't have this in
12 an overhead.

13 MR. UDDO: Well, the Chamber of Commerce figures.

14 MS. DICKERSON: Okay. If you look at the executive
15 branch of the federal government, theirs is 39.6 percent of
16 base payroll. If you look at theirs without paid time off,
17 it's 24.1 percent. When you add in the paid for time not
18 worked, it's an additional 15 percent. So it's a total of
19 39.6.

20 MR. RICHARDSON: When we talk about pay for time
21 not worked, we're talking about vacation, holidays, and sick
22 time.

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1 MR. UDDO: But we have this process of accumulating
2 sick time that sounds almost unlimited in the amount of time
3 that can be accumulated?

4 MR. RICHARDSON: That's correct. An employee earns
5 13 days a year. It's not vested. For instance, if they
6 leave the Corporation, they lose it.

7 MR. UDDO: But if they stay it accumulates 13 days
8 a year?

9 MR. RICHARDSON: If they stay, it continues to
10 accumulate; yes, sir. We have had circumstances --

11 MR. UDDO: What does that cost us?

12 MR. RICHARDSON: It doesn't cost you anything until
13 they take it. For instance --

14 MR. UDDO: I know. But do we have some figures on
15 what it costs to allow the accumulation of those 13 days sick
16 leave and not just wipe them off at the end of the year?

17 MR. RICHARDSON: I don't have that particular
18 figure but let me give you a for instance. For instance,
19 last year we had two employees who were out for a prolonged
20 period with injuries. What we have in that particular
21 circumstance is they're eligible for disability.

22 But the first month, basically 30 days, they are

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1 not eligible for that disability, so they are accumulating
2 their sick pay. And if they're out for that time, they are
3 paid, and then the disability kicks in. Here they get 75
4 percent if there's a family and --

5 MS. DICKERSON: No. The long term disability is
6 66-and-two-thirds percent.

7 MR. UDDO: This is obviously more complicated than
8 I had hoped it was going to be, but I'm still not convinced
9 that there's not money in the benefits package that we could
10 economize on. I mean, I don't know why you picked Wayne
11 State, but if you had compared it to my university, it
12 wouldn't have been anything like that kind of comparison, I
13 can assure you. They don't pay 100 percent of anything, much
14 less dental.

15 So, I mean, I just think that probably if you
16 compared to our grantees, you'd find that there are
17 significant differences. I think that we've got to continue
18 to look at this benefits thing. I think it's got to be a
19 very expensive item that's only getting worse.

20 I know Mr. Kirk was telling me that his experience
21 with law firms -- and again, maybe D.C. law firms are
22 particularly fortunate in this regard -- but all the law

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1 firms I talked to are trying to economize on the benefit
2 packages and aren't paying 100 percent of dental and things
3 like that.

4 MS. DICKERSON: Well, I think that all corporations
5 are looking at trying to do what they can to economize on
6 their benefit packages. One of the things that employers are
7 doing that is something that I think would be worthwhile for
8 LSC to look at is a flexible benefits package.

9 Southwestern Airlines is a good example of an
10 organization that saved a significant amount by doing this.
11 They had anticipated a savings of six percent by going to
12 flexible benefits. They actually saved eight percent. This
13 is something that we would need a little lead time on. We
14 need to research and we need to make a proposal. But it
15 certainly is something that can serve employees well and yet
16 give the Corporation an opportunity to cut some costs also.

17 CHAIRMAN DANA: I think that that's something you
18 should discuss with the president and the comptroller. If
19 it's a good idea from their point of view and you feel it's a
20 way to save costs, I'm sure that this committee at this time
21 would be most appreciative.

22 Mr. Kirk?

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1 MR. KIRK: If I just may make a personal comment at
2 the risk of engendering hostility from all the employees of
3 the Corporation, it sounds like, to me, a very generous
4 benefit package. I think it probably is more generous than
5 most of us at the table are accustomed to and probably more
6 than most of the people in the field are accustomed to.

7 So I would ask that we look really hard at the
8 benefits package and see the areas that we might be a leader
9 in helping to find ways to save money.

10 MS. DICKERSON: Okay.

11 CHAIRMAN DANA: Mr. President?

12 MR. O'HARA: Thank you, Mr. Chairman. Just to
13 discuss the situation in Washington, D.C. As a practitioner
14 in the Washington, D.C., suburbs, I can tell you that for law
15 firms competing in the Washington area, when we started our
16 law firm, which was approximately two-and-a-half years ago,
17 we found that one of the things we had to compete with was
18 100 percent benefits package in Washington, D.C.

19 Frankly, the firm that I was with was very small.
20 I think we have about six attorneys there now and three or
21 four support staff. All of their benefits are paid 100
22 percent. It's the only way we could attract people to work

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1 in that area. We are competing with the federal government.

2 The job market in D.C. is very competitive. The
3 benefits package is a very tough area to work in. We will
4 look at all of these things, but I'm hesitant to say that
5 we're going to be successful in finding a section of the
6 benefits package to make some savings on.

7 The other point I'd like to make is that we do have
8 employees who are at the lower level salary scale. This
9 would be a very difficult thing for them to live with. I
10 think we'd have some difficulty retaining those people.
11 Their salaries are not all that great.

12 I think you would be surprised to find that some of
13 them would be client-eligible. The cost of living in the
14 Washington, D.C., area is very high. We'd really like you to
15 take a close look at everything we can provide you on this.
16 Thank you.

17 CHAIRMAN DANA: Thank you, Mr. President. I want
18 to alert everyone that I've been advised that this meeting
19 will be over reasonably soon. It's not clear that we're
20 going to solve anything today except highlight a problem.
21 For the record, I have now learned why it is that whenever
22 there is a change in administration, everyone in Maine wants

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1 a job in Washington.

2 But I think that everyone within the Corporation
3 and on the Board should focus on the following numbers. If
4 we add to the freeze budget that has been proposed by the
5 Corporation, the IG's request of an additional, I think,
6 \$250,000 in round figures, we come to, in round figures,
7 \$12,700,000 as a freeze budget for everybody except our IG.

8 We know, I believe, that Congress will give us at
9 least what they gave us last year to run the Corporation,
10 which is the \$9,774,000. We believe that our carryover will
11 be approximately \$450,000. That's our pure carryover without
12 dipping into timekeeping.

13 We believe that there is a \$300,000 construction
14 credit, and we know that we will not be paying rent for the
15 first nine months of this fiscal year. That's \$860,000. So
16 the sum of all of those puts and takes means that we have or
17 we can see our way up to 11 million-and-call-it-400,000
18 dollars.

19 The difference between \$12.7 million and what we
20 can see easily without doing anything else -- between \$12.7
21 and \$11.4 is \$1.3 million. Now, the ready options for
22 tackling \$1.3 million appear to be whatever Congress gives us

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1 as an increase, if any, which clearly is not going to be more
2 than two percent.

3 It may be less, which would be \$200,000 at best,
4 \$300,000 if we wiped out the timekeeping money, \$300,000 if
5 we dipped into next year's grant recoveries and interest
6 income. After that, the comptroller has identified a series
7 of contingency funds in various line items that Congress has
8 directed we spend in those various line items.

9 We would be required to go to Congress and seek
10 their permission to reprogram. I have it on reasonably good
11 authority that the committees involved are not pleased with
12 that practice that we have done in the past. So that option
13 may be -- we may have to struggle with that option.

14 I think what that tells me, at least, is that
15 unless I have missed something, we have got a serious
16 shortfall, even if we deny the IG's request to hire an
17 additional five employees. My assumption is that management
18 may want to move some people around within the Corporation
19 and adjust our priorities and approaches, and we'll probably
20 have to in order to do this.

21 But I'm not sure that we're anywhere near where we
22 need to be. I have some very strong misgivings about

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1 taking -- basically spending all of this rent subsidy that
2 was supposed to stretch over 10 years or more in the first
3 year, spending the construction subsidy -- we're, in effect,
4 robbing from future years to cover one year -- and dipping
5 into the carryover for next year of interest. I mean, that
6 is some flexible money if we were to be hit by unexpected
7 costs like we were this year.

8 That is some flexibility. But, basically, in order
9 to preserve staffing at the current level, we are taking away
10 all flexibility for this Board and all future Boards for some
11 time to come, absent a loosening up of congressional
12 resources.

13 Now, that's just my view on that. I've taken up
14 half of the available time. Bud?

15 MR. KIRK: Mr. Chairman, I just would like to
16 comment on one item and it may further contribute to your
17 deficit. But I really would oppose taking any money from the
18 timekeeping in any way, shape or form. I feel very, very
19 strongly about that. I'm going to ask Mr. Richardson to work
20 with me to help find other places that that money might be
21 taken rather than timekeeping.

22 CHAIRMAN DANA: Is there a second? Mr. Uddo?

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1 MR. UDDO: That wasn't a motion, I don't think.
2 Well, I'll tell you what I am going to throw on the table,
3 Howard, and I know we're not going to decide this today. I
4 mentioned it last time and I think we need to put it on the
5 table to make these decisions here. This is not in lieu of
6 the staffing decisions being made and the Corporation being
7 as lean as it can on internal operations, but I've already
8 expressed the same view that Bud had.

9 I don't think we can take that timekeeping money
10 that has been there all these years, that has been such an
11 issue for so many years, and suddenly take it away and say
12 now that's why we can't do timekeeping because the money is
13 not there. It's still one of those very high profile issues
14 that I don't think we should avoid on that basis.

15 What I am prepared to do is to say that we not fund
16 law school clinics at all in '93 and that the difference that
17 needs to be made up for M&A, again just the difference, not
18 everything, I think the rest of the machinations have to be
19 gone through, come out of that line. What's left over can go
20 to basic field programs.

21 But I'm making that proposal with this proviso:
22 that for '94, I would like for us to have a detailed proposal

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1 of how to reinstitute a line that would not be a law school
2 clinic line but would be a line along the lines of what my
3 group yesterday proposed as a high priority; that is, a loan
4 forgiveness program or some kind of recruitment of legal
5 services attorney's program.

6 I think the law school clinic idea was a good idea
7 in the beginning. I think we've worked with it. We've
8 gotten some benefit out of it. I don't think that it's given
9 us much in terms of long term benefit with respect to
10 delivery of legal services.

11 There's no loss by taking this money away because
12 the grants are all one year grants, which is one of the
13 problems. But it also gives us the flexibility to take it
14 away because nobody is relying on grants for '93. There is
15 no commitment beyond the one-year grant in the law school
16 clinics.

17 Now, I'm sitting here, the only person on the Board
18 who is employed by a law school, and I'm sure I'm going to
19 hear from people about this. But I think the long run is
20 going to be better because I think there's more benefit to
21 some kind of loan forgiveness recruitment program that
22 everyone has said would be a good idea.

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1 The figures we heard yesterday about people having
2 \$60,000 in debt when they get out of law school makes it very
3 difficult for them to go work for a legal services provider.
4 So I think that that would give us a good deal more
5 flexibility in the neighborhood of \$1.2 million to work with.
6 I think long term it will be better for everybody.

7 CHAIRMAN DANA: Thank you, Mr. Uddo.

8 MR. O'HARA: Mr. Chairman?

9 CHAIRMAN DANA: Mr. President?

10 MR. O'HARA: Speaking for the staff of the
11 Corporation which put together this budget, I just wanted the
12 Board to know that the budget that you're looking at is not a
13 final mark. It does represent, for instance, a \$300,000
14 reduction in the monitoring effort for next year. We've
15 already reduced that.

16 I think that I've already informed the chairman
17 that we have positions in the executive office which I felt
18 were not necessary and which would not be filled. We have
19 prepared a couple of other budgets within the corporate staff
20 looking at the possibility that our reduction would be
21 severely reduced.

22 But I want to point out to the Board that there are

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1 other considerations which will have an impact upon the
2 operations of the Corporation. One of them is the 800 number
3 which will be installed by the inspector general, which will
4 be operating soon.

5 It's been my experience over a lot of years that
6 that 800 number is going to generate a lot of calls. But a
7 lot of the work will fall upon the corporate staff in
8 compliance because a lot of the calls will be in that area.
9 So we will be increasing the amount of work that will
10 probably be referred to us by the IG's office with those
11 things that do not fall under his immediate purview.

12 I just want to make it clear that we have that and
13 we will be reviewing everything that is said here this
14 morning with an eye towards cutting it and making it as fine
15 as we can. Thank you.

16 CHAIRMAN DANA: Thank you, Mr. President. Mr.
17 Richardson?

18 MR. RICHARDSON: By way of clarification of
19 information you may need, we do, of course, have the
20 inspector general's budget that was presented to me. He, of
21 course, now has this revision. I will make that available to
22 this committee in the next few days, then, with the IG's

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1 help.

2 CHAIRMAN DANA: I would ask that you do that and
3 also, Mr. IG, we're rapidly concluding this meeting, but we
4 would very much like to have the rationale for the budget. I
5 think it would have been nice to be in a position to do
6 something today, but we're just not there. I thank you all
7 for those reports.

8 We have two more items on the agenda. I think I'm
9 correct that Item No. 5 is on the main agenda. I understand
10 that you are in agreement with a recommendation?

11 MR. RICHARDSON: That is correct, sir.

12 CHAIRMAN DANA: I think we can defer that and vote
13 as a full Board. Consideration of the status report on the
14 leasing of the Corporation's former headquarters office
15 space, is that a report that you could make quickly?

16 CONSIDERATION OF THE STATUS REPORT ON THE LEASING
17 OF THE CORPORATION'S FORMER HEADQUARTERS OFFICE SPACE

18 MR. RICHARDSON: Yes, sir, it is. Basically, we've
19 been working for the past two months with the General
20 Services Administration. We have signed a memorandum of
21 understanding where they will take over the full lease at 400
22 Virginia Avenue. We have a three-year term left.

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1 They are in the process of appraising the property.
2 They actually want a five-year lease, which they are working
3 with Trammel. We are not involved with those negotiations.
4 They tell me it will take upwards to 90 days to get an
5 appraisal. However, we have requested and they are going to
6 their bureau chief to see if they can get it done in 45 days.

7 Within that lease, there is also a proviso that if
8 somebody walks up and wants space, that we can negotiate with
9 them and lease it to them. We actually have two things that
10 are working right now for 4,000 square feet, the executive
11 office level. It's actually 4,320 square feet.

12 There's another one that is approximately 15,000 on
13 the basement level. If those come to fruition before the
14 GSA, we can sign those without jeopardizing the GSA lease.
15 We'll just have to look at the numbers and the financing to
16 see if it makes sense to do that.

17 CHAIRMAN DANA: Thank you, Mr. Richardson. I'm
18 suggesting to the committee that we defer Item 5, since there
19 appears to be no controversy, and just vote when this matter
20 comes up on the Board's agenda.

21 MR. UDDO: That's fine.

22 CHAIRMAN DANA: If not, I would entertain a motion

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1 to adjourn.

2

M O T I O N

3

MR. UDDO: So moved.

4

CHAIRMAN DANA: Second?

5

MS. WOLBECK: Second.

6

CHAIRMAN DANA: There is a second. All those in
7 favor say aye.

8

(A chorus of ayes.)

9

CHAIRMAN DANA: Opposed?

10

(No response.)

11

CHAIRMAN DANA: It's a vote. Thank you very much.

12

(Whereupon, at 9:19 a.m., the meeting was
13 adjourned.)

14

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