

LEGAL SERVICES CORPORATION  
BOARD OF DIRECTORS

MEETING  
OF THE FINANCE COMMITTEE

OPEN SESSION

Friday, February 6, 1998

10:05 a.m.

The Legal Services Corporation  
750 First Street, N.E., Room 10030  
Washington, D.C. 20002

BOARD MEMBERS PRESENT:

Maria L. Mercado, Chair  
Thomas F. Smegal, Jr.  
John T. Broderick, Jr.  
Douglas S. Eakeley

ALSO PRESENT:

Eduoard R. Quatrevaux, Inspector General  
James J. Hogan, Vice President Administration  
Mauricio Vivero, Director, Governmental  
Relations/Public Affairs

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

1  
2 CHAIR MERCADO: Why don't we go ahead and  
3 start our meeting of February 6, 1998. And let the  
4 record reflect that all my committee is here. I'm very  
5 proud of you. Great New Year. And we thank our  
6 audience for being here, especially our OIG and our  
7 Vice President of administration, of course, Harrison,  
8 and the NLADA.

9 I would at this time entertain a motion for  
10 approval of the agenda, unless there's any other  
11 additional items that you all are aware of that we need  
12 to add.

## M O T I O N

13  
14 MR. BRODERICK: So moved.

15 MR. SMEGAL: Second.

16 CHAIR MERCADO: All those in favor?

17 (Chorus of ayes.)

18 CHAIR MERCADO: Opposed?

19 (No response.)

20 CHAIR MERCADO: The approval of the minutes of  
21 the committee meeting on November 14th, are there any  
22 additions or corrections to the minutes?

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1 San Francisco.

2 MS. ROMEAR: For the record, my name is  
3 Charmaine Romear, supervising senior auditor of the  
4 Office of Inspector General. The Office of Inspector  
5 General contracted with the firm of Thompson, Cobb,  
6 Bazilio & Associates to perform the audit of  
7 appropriations FY '97 financial statements.

8 Our role essentially was reviewing the work  
9 that was done by the auditors, and we found that that  
10 was adequate and sufficient to support the opinions  
11 that were presented. Here to present the results of  
12 the report -- or the audit, excuse me, are Ralph  
13 Bazilio, engagement partner, and at this moment, I'll  
14 turn the table over to him.

15 CHAIR MERCADO: Welcome, Mr. Bazilio.

16 MR. BAZILIO: Thank you and good morning. I'm  
17 Ralph Bazilio, with the firm of Thompson, Cobb, Bazilio  
18 & Associates. And to my right is Dennis Ramphrashad,  
19 our audit manager, who has worked with me in this  
20 engagement for several years. And we are pleased to  
21 have completed the audit for you once more. And we're  
22 here to present the findings to you and to discuss the

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1 report with you.

2 The package you have is for the year ending  
3 September 30, 1997, of course, that is presented in a  
4 comparative format with 1996, as we usually will do for  
5 you. There are three reports included in the package,  
6 and I would like to discuss them one at a time in  
7 order.

8 The first report on page 1 is our auditor's  
9 opinion on the financial statements, page 1 of the  
10 package. That first letter, actually, in your package  
11 is the Inspector General's letter, and our letter is  
12 two pages in.

13 As in the past few years, the opinion is,  
14 again, an unqualified opinion, which is equivalent to a  
15 clean opinion on the financial statements. We find  
16 after going through a process which was conducted, by  
17 the way, in accordance with government auditing  
18 standards, because of the amount of federal funds  
19 involved, that the statements are presented fairly in  
20 accordance with generally accepted auditing standards.

21 On the next several pages, all the way to page  
22 11 or so, are the financial statements themselves and

1 accompanying footnotes. And I would like to mention a  
2 few of the highlights of the financial statement  
3 numbers, starting on page 2 and then afterwards discuss  
4 the audits or reports.

5 On page 2 is our -- is the balance sheet,  
6 assets, liabilities, and fund balances. And you'll  
7 notice on the balance sheet, there's total assets of  
8 \$49.8 million, a slight increase over the prior year,  
9 and total liabilities of 47 million. That is shown  
10 towards the bottom half of the page there.

11 Towards the bottom of page 2, you'll notice  
12 fund balances. And there were three fund balances in  
13 three categories there. We break them out to make it  
14 clearer. The total fund balance is 2.4 million, which  
15 is an increase over the prior year, which was a  
16 million.

17 And the reason for that increase is because we  
18 have classified over a million dollars in basic program  
19 funds that's designated for subgrantees that are on  
20 short-term funding. And in addition to that, there's  
21 359,000 or so that's designated for management and  
22 administration.

1 MR. SMEGAL: In that million, 45?

2 MR. BAZILIO: Yes. On page 3 of the package,  
3 the very next page, is the statement of support and  
4 revenue. And there, we see at the very top is the  
5 federal appropriation of \$283 million.

6 And coming down a few towards the middle of  
7 the page, there's excess of support and revenue are  
8 expenses of a million, 379. And it's in that number  
9 that the basic program monies have been included, which  
10 contributes then to the fund balance of 2 million, 4,  
11 at the bottom of the page.

12 The only thing of significance I would like to  
13 mention in addition to that on this page is the  
14 supporting activities, the management and general  
15 expenses that you will notice one, two, three, four,  
16 five, six lines from the top. It's \$8.5 million,  
17 showing a slight increase over 1996. And that's mainly  
18 because of additional expenditures incurred in 1997 for  
19 technology improvements and other consulting costs.

20 The next page on page 4 shows the cash flow  
21 activity basically showing the components that  
22 contributed to the increase in cash starting from the

1 second line from the bottom of page 4. You will notice  
2 the cash at the end of the year was 49 billion.

3 And going up one more line at the beginning of  
4 the year, 47, our net increase for the year was a  
5 million, 4. And the other amounts above are just  
6 analyzing the components of that change.

7 On the other pages, page 5 and following, are  
8 footnotes to the financial statements, which explain in  
9 more detail as in prior years the activities. There  
10 are no significant changes in these footnotes that I  
11 would like to bring to your attention. But, of course,  
12 if there are any questions, we certainly are prepared  
13 to answer them.

14 MR. SMEGAL: On page 6, there's two entries  
15 for cash, one in financial institutions and the other  
16 in U.S. Treasury. Are we restricted in any way on  
17 where we put these cash reserves, what -- are we  
18 required to roughly put 50 percent of them or keep 50  
19 percent in U.S. Treasury?

20 MR. BAZILIO: No. It's just that at this  
21 time, that's the amount that was left in Treasury.

22 MR. SMEGAL: All right. We can put them

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1 anywhere we want?

2 MR. BAZILIO: Yes.

3 MR. SMEGAL: Anywhere we want?

4 MR. BAZILIO: Yes. But, of course, the policy  
5 would require them to be secured. And so there's an  
6 agreement with the bank that pledges securities to  
7 protect them in case of --

8 MR. SMEGAL: Okay.

9 CHAIR MERCADO: Maybe we might have a little  
10 bit more light on this by our comptroller, Mr.  
11 Richardson.

12 MR. RICHARDSON: Yes. For the record, my name  
13 is David Richardson. I'm the treasurer. The Board did  
14 pass a resolution -- it has been three years now --  
15 that did restrict the way that we invest our money.  
16 Actually, our money is set up in checking accounts, and  
17 we have target balances. And then it's swept into T-  
18 bills, government-backed securities. So all of our  
19 money is always backed by the full faith and trust of  
20 the government.

21 The money that's in Treasury is there because  
22 we only pull money out of the Treasury as we need it.

1 So what you have there is two months' funding of -- or  
2 actually, one month's funding of grant checks, because  
3 we pulled out the October money the last week in  
4 September. So that's the reason there's roughly half,  
5 and half the money is there.

6 MR. SMEGAL: So if you multiplied that number  
7 by 12, you would roughly get 278 or something?

8 MR. RICHARDSON: That's correct.

9 MR. SMEGAL: Thank you.

10 CHAIR MERCADO: So it isn't that we have these  
11 excess funds that are sitting there?

12 MR. SMEGAL: No, no, I didn't -- I was just  
13 concerned -- I was interested in knowing if we were  
14 maximizing interest on those funds and if there was  
15 some way that --

16 CHAIR MERCADO: Right.

17 MR. SMEGAL: And we have them in more than  
18 these 2 percent accounts or something, or do we.

19 MR. RICHARDSON: We're actually drawing about  
20 4 and-a-half percent now on government-backed  
21 securities.

22 MR. SMEGAL: Thanks.

1 MR. BAZILIO: Going back several pages, the  
2 other two reports that we are issuing are on page 12.  
3 Right after page 11 is then page 12. It's not numbered  
4 because you have it on a letterhead page. And that's  
5 the report on compliance with laws and regulations.

6 As a part of our audit, as I mentioned  
7 earlier, we conduct the audit according to government  
8 auditing standards, and those standards require us to  
9 check for compliance with laws and regulations as they  
10 apply to the financial statements. And this report  
11 shows that we did not notice any instances of  
12 noncompliance with laws and regulations which affect  
13 the financial statements.

14 MR. SMEGAL: Excuse me. I want to go back to  
15 page 9. And I'll direct this to David. We have got  
16 something on our agenda for the Board tomorrow -- I  
17 know that it's here -- with respect to the retirement  
18 plan ratifying a prior activity which doesn't go back  
19 this far, I guess.

20 What we're doing is ratifying something that  
21 occurred in 1997 but not before the end of the last  
22 fiscal year, so it doesn't go back to September 30.

1 What we're doing, we're modifying the retirement plan  
2 effective some date after September 30, 1997, so it has  
3 no effect on footnote 9?

4 MR. RICHARDSON: That is correct, sir.

5 MR. SMEGAL: Thank you.

6 CHAIR MERCADO: Are there any questions or  
7 comments?

8 MR. SMEGAL: Litigation reserves, footnote 10,  
9 what are we carrying by way of reserves? I apologize  
10 for not having totally absorbed this footnote.

11 CHAIR MERCADO: This is money that was  
12 deposited in funds register. It's not a --

13 MR. SMEGAL: This has nothing to do with this  
14 accounting statement, other than the inquiries. Do we  
15 have reserves for litigation as of September 30, '97,  
16 that are no longer necessary in the next fiscal year?

17 MR. RICHARDSON: There is a reserve aside for  
18 one outstanding case. This was written so as not to  
19 have that amount presented and be on the record.

20 MR. SMEGAL: All right. So it's not on here?  
21 There is nothing on that line?

22 MR. RICHARDSON: There isn't, no.

1 MR. SMEGAL: Okay. Thank you.

2 CHAIR MERCADO: I mean, under our litigation,  
3 we potentially have -- I mean, assuming the worst  
4 scenario, we potentially have a significant amount that  
5 would have had to have been in reserve, I would think.

6 MR. BAZILIO: Which is included.

7 MR. RICHARDSON: There is an amount set aside  
8 as reserve that is part of the payable amount that is  
9 in the financial statements. If you'll recall, a few  
10 years ago, we did have to pay some money for the U.S.  
11 District Court. We got a refund of that money. The  
12 case has been remanded.

13 We had -- we accrued interest on the money.  
14 We had to pay some fees out of it, and the remaining  
15 balance is still remaining on the accounts payable  
16 section pending resolution of that litigation.

17 MR. SMEGAL: So it comes up -- it's under  
18 accounts payable?

19 MR. BAZILIO: Yeah.

20 MR. SMEGAL: Page what --

21 MR. BAZILIO: It's in page 2 included in the  
22 accounts payable.

1 MR. RAMPHRASHAD: [Stricken.]

2 MR. QUATREVAUX: Excuse me, Madam Chair?

3 CHAIR MERCADO: Yes.

4 MR. QUATREVAUX: You might want to make sure  
5 that you strike that last remark. I don't think you  
6 want the amounts set aside on the public record.

7 MR. SMEGAL: Right. Okay. Thank you. Thank  
8 you, Madam Chair. I have no further questions.

9 CHAIR MERCADO: Any questions? Any other  
10 items that you wish to bring to our attention?

11 MR. BAZILIO: The last report there is in page  
12 13 and 14, and that's report on internal controls. We  
13 are also required to report to you on your  
14 organization's internal controls, and we're pleased to  
15 report that there are no material weaknesses in  
16 internal controls to bring to your attention as a  
17 result of our audit.

18 CHAIR MERCADO: Okay. You have on here that  
19 you don't express an opinion of the internal controls  
20 structure, which I'm not sure if you reviewed that why  
21 there couldn't be an opinion made on that.

22 MR. BAZILIO: This is because the audit is

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1 designed to issue an opinion on the financial  
2 statements and not on the internal control structure  
3 specifically. But we are required by government  
4 auditing standards to report to you any weaknesses we  
5 notice while giving an opinion on the financial  
6 statements on internal controls.

7 I may point to the one sentence on the very  
8 last page. The last sentence, second to last  
9 paragraph, summarizes our comments. It says, "We  
10 noted" -- it's the last sentence on the second to last  
11 paragraph there -- "We noted no matters involving the  
12 internal controls structure and its operation that we  
13 consider to be material weaknesses."

14 MR. SMEGAL: Does this audit -- and I  
15 apologize if this is a naive question. Does this audit  
16 cover funds that are specifically allocated to the  
17 Inspector General? Is that part of your auditing  
18 process?

19 MR. BAZILIO: Yes.

20 MR. SMEGAL: And it isn't broken out? There  
21 isn't any subpart that says "Inspector General"?

22 MR. BAZILIO: (Nodding.)

1 MR. SMEGAL: Thank you.

2 CHAIR MERCADO: No, they just applied it, the  
3 whole funds to the Corporation, including the grantees.

4 MR. SMEGAL: Okay.

5 MR. BRODERICK: Who audits, if anyone,  
6 internal controls at the Corporation?

7 MR. QUATREVAUX: We would.

8 MR. BRODERICK: Inspector General?

9 MR. QUATREVAUX: The OIG would do that --  
10 audit that. Usually, it would be done as part of  
11 another audit rather than a specialized audit looking  
12 at internal controls.

13 MR. BRODERICK: When would that last one have  
14 been done?

15 MR. QUATREVAUX: We did an audit, I believe,  
16 in 1994 of the revenue stream which gave us positive  
17 assurance that there were -- that the grant  
18 disbursement system was free of material levels of  
19 fraud, and that's about the most major internal control  
20 aspect that you can get.

21 We also did a very minor audit of the petty  
22 cash fund and got into the internal controls there. I

1 think that was '92 or '93, so it has been some time in.  
2 In that vein, what we plan to do in fiscal year 1999 is  
3 to conduct an audit of the new automated financial  
4 accounting system that the Corporation is in the  
5 process of installing.

6 So it's pretty much doing the same thing we  
7 did before to make sure the new system has got all the  
8 controls that should be there.

9 CHAIR MERCADO: When do you expect that it  
10 would be fully implemented?

11 MR. QUATREVAUX: I'm not sure when the system  
12 is anticipated to be implemented, but we have not  
13 planned it beyond fiscal year '99. So I haven't  
14 thought about whether it's the first part or the second  
15 part.

16 MR. HOGAN: May I add something here?

17 CHAIR MERCADO: Mr. Hogan.

18 MR. HOGAN: The standards, government auditing  
19 standards, require the CPA firm that we hire to do a  
20 review of internal controls in addition to an audit of  
21 financial statements of the Corporation, as well as to  
22 report on compliance with the rules and regulations.

1 So it's a three-part requirement. It's a little  
2 different than an audit of the standard business  
3 corporation.

4 So in addition to what the IG may do, the CPA  
5 firm that we hire must report out on internal controls  
6 each time they do an audit. So they will do that again  
7 next year, whatever firm they retain. If they retain  
8 the same firm, they will do it. It's a requirement of  
9 the government auditing standards.

10 MR. BAZILIO: Is there a need for  
11 clarification based on what I said?

12 MR. SMEGAL: (Nodding.)

13 MR. BAZILIO: We do look at controls as part  
14 of the audit, which is consistent with what's being  
15 said, but it's not an opinion issued on internal  
16 controls.

17 MR. BRODERICK: But if you see anything that's  
18 a material --

19 MR. BAZILIO: We're going to be required to  
20 report it.

21 MR. BRODERICK: And you aren't reporting any,  
22 so --

1 MR. BAZILIO: Right.

2 CHAIR MERCADO: No weaknesses.

3 MR. BAZILIO: There are times when we are  
4 asked to extend our audit sometimes and look  
5 specifically deeper and give opinions, which can be  
6 sort of -- but we are asked to do any if there's a  
7 great need to do that.

8 CHAIR MERCADO: Well, I know that there's -- a  
9 lot of that issue would really be up to the discretion  
10 of the Inspector General that has been charged to  
11 handle the audit for the Corporation. And if the  
12 Inspector General felt that that was an additional  
13 element that needed to be done, you know, I -- assuming  
14 that we had the funds, we would do that.

15 Okay. Any other comments, questions on the  
16 audit or any other --

17 MR. BAZILIO: That's all we have to present,  
18 unless there are questions.

19 MR. BRODERICK: Thank you.

20 MR. BAZILIO: Thank you very much.

21 CHAIR MERCADO: Thank you.

22 (A discussion was held off the record.)

1 CHAIR MERCADO: We need to go ahead and  
2 approve the audit. Do I hear a motion?

3 M O T I O N

4 MR. SMEGAL: I move we approve the audit.

5 MR. BRODERICK: Second that.

6 CHAIR MERCADO: All those in favor?

7 (Chorus of ayes.)

8 CHAIR MERCADO: Opposed?

9 (No response.)

10 CHAIR MERCADO: Motion carries. Our next item  
11 is review and adoption of the FY '98 operating budget.

12 MR. RICHARDSON: Page 28 of your Board book.  
13 What I've endeavored to do in the memorandum is to lay  
14 out the significant areas in this year's consolidated  
15 operating budget.

16 Of course, the Board approved a temporary  
17 operating authority in September. We have been  
18 operating within that framework, but now that we have  
19 our appropriations, which we did not have at that time,  
20 actually, it was passed the day before the meeting, so  
21 we didn't have time to complete a full budget review  
22 and get you an annual budget. And we now have

1 carryover as a result of the audit, so --

2 MR. SMEGAL: Because you had used as a COB  
3 temporary prior year's funding, which was lower?

4 MR. RICHARDSON: That's correct. Well, it was  
5 the same amount.

6 CHAIR MERCADO: We used the same amount.

7 MR. RICHARDSON: It was the same amount, but  
8 we didn't know carryover figures.

9 MR. SMEGAL: Oh, okay.

10 MR. RICHARDSON: So, as a result, yes, the --  
11 for instance, for management administration, it was the  
12 same 7.1 available for operations; the same thing with  
13 the Inspector General, 1.5 million was appropriated.  
14 The \$5 million increase that we received in the 1997  
15 fiscal year went totally to the field.

16 Within the budget that is before you, I have  
17 laid out again the significant items. For instance, in  
18 the Board budget, we have budgeted five meetings.  
19 There's also some -- two telephonic meetings that are  
20 budgeted, three of those meetings being in Washington  
21 and two being at a site outside the Washington area.

22 That does not impact the Board's budget

1 significantly. What that does do is create a need for  
2 management to set aside travel funds for the Board  
3 meetings. We estimate that an in-town Board meeting  
4 will cost about \$16,500, and one out of town will cost  
5 anywhere from 25 to \$26,000 because of the staff travel  
6 that's involved.

7           Within the -- the next significant area is, of  
8 course, staff breakdown. And what I've done is provide  
9 you with the full-time equivalents in each office.  
10 This does report to you the amount of staff under the  
11 restructuring that was approved in November. You'll  
12 look -- see in the Executive Office that we have a  
13 full-time staff equivalent of six, and that's what we  
14 hope to end at at the end of the year.

15           In the General Counsel, there is five. And we  
16 hope to end with six. There is one assistant General  
17 Counsel that we're hoping to add later on in the year.  
18 In our Public Relations and Public Affairs Office, we  
19 have the full-time equivalent of four. There will be  
20 five staff members at the end of the year.

21           And when you look at administration and human  
22 resources, we have the full-time equivalent of 12, but

1 there will be 13 staff members at the end of the year.  
2 Comptroller's Office, five, and there should be six at  
3 the end of the year. Information technology, seven for  
4 both full-time equivalent and actual.

5 And then the total staff FTE will be 39 for  
6 administrative staffs, to include General Counsel and  
7 Executive Office, and 43 actual staff members.

8 Within the Office of Program Operations, you  
9 see the breakdown there is 30 full-time equivalent,  
10 with 31 at the end of the year. We have projected a  
11 5.5 percent increase in salaries for salary increases  
12 and pay adjustments due to promotions and so forth.

13 Our occupancy costs we have projected at  
14 \$1,252,000. This is the entire cost of our rent.  
15 There's no allocation in this particular budget to the  
16 Inspector General's Office. If you'll recall, last  
17 year in our budget submission to Congress, we had an  
18 amount allocated to the Inspector General's Office for  
19 his rent.

20 With the freezed budget, there was no shifting  
21 of funds to the Inspector General's Office for the  
22 share of the rent, so we budgeted again in the total

1 cost of administration.

2 MR. SMEGAL: Why is the rental number that you  
3 have here ever so slightly different than the one in  
4 the audited report which projects rental costs through  
5 the year 2002 lease payments?

6 MR. RICHARDSON: Because they did not include  
7 operations. And we also have included operating costs  
8 and painting costs and refurbishing --

9 MR. SMEGAL: That's, what, 50,000?

10 MR. RICHARDSON: Yes. Plus, we do have a  
11 reduction in rent this year because of the subleasing  
12 of additional space last year. We have more -- our  
13 subleasing of Capital Community Health Care Project is  
14 indexed, so that goes up each year. So we have  
15 included those increased incomes against the rental  
16 expense, also.

17 CHAIR MERCADO: How long is the lease for,  
18 now?

19 MR. RICHARDSON: Our lease here is through May  
20 31, 2002.

21 MR. SMEGAL: It was '92 and two five-year  
22 options, yeah, so it's 2002. So the number they have

1 here does not take -- in the audit does not take into  
2 account our subleases?

3 MR. RICHARDSON: It does not.

4 MR. SMEGAL: This is just a raw number out of  
5 the lease contract, a million, 2?

6 MR. RICHARDSON: That is correct.

7 MR. RICHARDSON: Is there any other questions  
8 on that?

9 (No response.)

10 MR. RICHARDSON: The other major cost that we  
11 have this year is, of course, in September, you  
12 approved the purchase of furniture for management. We  
13 have included that amount of carryover. Part of the  
14 300,000 carryover figure that you heard from Ralph in  
15 the audit report, 212,000 of it was for rent purchases.  
16 The additional amount is for the software purchases for  
17 our new finance and human resources system.

18 But -- and human resources budget is increased  
19 for the capital purchases of 212,000. And the Office  
20 of Information Technology, there's \$101,675 for the  
21 projected cost of the software and some -- that has  
22 increased a little from what you had approved before,

1 but that's because we have decided in looking at our  
2 current licenses that we needed to increase those in  
3 certain areas. So we have done so in this budget  
4 projection for you.

5 And then there's a one-time cost associated  
6 with the migrating data from our old Legacy PICK  
7 system, which housed our financial system and inventory  
8 was in a DBASE program, some in Lotus. And also, our  
9 human resources was in the PICK system. And we have  
10 projected a cost of about \$140,000 to move that data  
11 into the new financial system and human resource  
12 system.

13 And then, of course, what we're looking at is  
14 to enhance and improve our grants management  
15 information system, so we have projected an additional  
16 \$83,000 for the next phase of our grants information  
17 management system there.

18 I have got a paragraph here, also, in regards  
19 to the Inspector General Office that they have provided  
20 for you. The key areas in their staff is they have  
21 currently 16 staff members. They do not show an  
22 increase in staff either this year or next year in the

1 '99 budget submission.

2 Included in this is 27,000 for the financial  
3 audit, 65,000 for the next phase in their audit  
4 information management system, and there's 65,000,  
5 almost 66,000, for the audit of grantees and  
6 information reporting.

7 And then there's -- he also purchased some  
8 furniture at the end of the year that was not received  
9 until after the end of the fiscal year, so there's  
10 \$73,900 that carried over for the last year to support  
11 that purchase. And then he has an additional 34,000 to  
12 upgrade some new computer systems and stay current with  
13 technology.

14 CHAIR MERCADO: Let me ask something -- I  
15 guess I heard it wrong in my mind. Something was  
16 purchased in FY '97 and delivered in FY '98, but wasn't  
17 the money expended in '97?

18 MR. RICHARDSON: It was obligated.

19 CHAIR MERCADO: It was obligated, it wasn't  
20 expended?

21 MR. RICHARDSON: Right. So when you look at  
22 the 1.4 million that was shown as designated, there was

1 actually 1 million -- almost 1,100,000 for field  
2 programs, and then the remainder for -- was for  
3 management and the Inspector General dealing with the  
4 furniture purchases and outstanding contracts for  
5 software development and so forth.

6           What I have done on page 31 is to show a chart  
7 as to how the money is broken down by grant funds,  
8 management administration, and Inspector General.  
9 There is -- I need to highlight one additional area  
10 here. And you'll see that in the Americorps funds,  
11 there's a blank.

12           We know that we're getting Americorps funds,  
13 but there has not been a final grant document presented  
14 to us. We think the grant will be in the neighborhood  
15 of \$880,000. Once that is finalized, we're going to  
16 ask that you also allow us to include that in the  
17 budget.

18           We will, of course, report that final figure  
19 to you, so you can go ahead and expend funds to the  
20 Americorps grants. Without that, the budget for the  
21 grant funds is \$276,307 -- excuse me, \$276,307,000,  
22 around there.

1           In management administration, we have a budget  
2 of 8,079,000. In the Inspector General, it's  
3 1,633,000, for a total budget of \$286,019,000.

4           On page 32, you'll see the breakdown as to how  
5 that comes about. The money that is allocated to the  
6 basic field, the money that's remaining from the  
7 special emergency grants, the U.S. Court of Veterans  
8 Appeal, we do -- have received information of a new  
9 grant this year that's 790,000. And then the grants  
10 from other funds that the Board set aside last year, we  
11 continue to hold to support grant activities.

12           CHAIR MERCADO: Let me ask you something real  
13 quick here. On the Americorps funds, is the  
14 Corporation going to be paid any amount of money for  
15 managing those funds, or is it just a pass-through to  
16 the grantees?

17           MR. RICHARDSON: It's a pass-through to the  
18 grantees, but there is actually a matching concept  
19 there. So any costs that we incur from managing the  
20 funds at this point, we have to absorb.

21           That is unlike the U.S. Court of Veterans  
22 Appeals fund, because in that particular \$790,000, they

1 allow us to charge back our time to administer the  
2 grant, and any of our administrative costs are charged  
3 to that particular grant.

4 MR. BRODERICK: Tell me, in this other funds  
5 available category, what that's comprised of?

6 MR. RICHARDSON: Last year, we had grant  
7 recoveries of over \$100,000. We moved that money into  
8 the budget, and then we granted to our grantees who had  
9 some emergency situations an amount of \$50,000, I think  
10 it was, to bring it down to this \$43,000 level.

11 So we're using it to support problems that we  
12 have incurred just recently in your particular area,  
13 ice storms, flooding. And we -- it's not reflected in  
14 the materials that you received today, but I was told  
15 actually Wednesday that there's a \$15,000 grant that  
16 will be going to a program in the Maine area to help --  
17 there's a surge in need because of the problems there  
18 with icing and so forth.

19 MR. BRODERICK: Thank you.

20 MR. RICHARDSON: Again, on 32, you see that  
21 there's a breakdown within the corporate management and  
22 grant administration. You see the two areas for --

1 CHAIR MERCADO: I think Mr. Smegal had a  
2 question. No?

3 MR. SMEGAL: No, I was -- well, why don't you  
4 finish, and then I'll ask a question.

5 MR. RICHARDSON: Okay. You'll see that there  
6 is -- again, the money that checks over to the front  
7 page, the \$8,079,000 for the management and  
8 administration, you have the 1.632 for the Inspector  
9 General. The breakdown of these funds, you'll see that  
10 the Board's budget this year is 157,000. The Executive  
11 Office is 872,800. General Counsel is \$606,550.

12 The two big ones there -- and I won't read  
13 them all -- is, of course, the administration human  
14 resources, and the reason it is basically \$2.5 million  
15 is because that's where the rent is charged, and any of  
16 the capital purchases are included in this particular  
17 line.

18 And in the program operations, \$2.5 million,  
19 of course, that's support for the field programs when  
20 we go out and we do reviews based on the competition.  
21 There's some compliance reviews budgeted. This year,  
22 there's a technology initiative that's included.

1           On page 33, you'll see the budget categories.  
2           You'll see how much we're spending on each line for  
3           personnel compensation, for instance, benefits and then  
4           also the different categories. Consulting is projected  
5           in management as 600,000. There's an additional  
6           163,000, basically, in the IG's Office.

7           The rent you'll see there is totally, again,  
8           administration, with the exception -- the reason  
9           there's \$2,002,500 is where we, of course, go into the  
10          field to have two Board meetings, we had to have some  
11          money set aside for the rental of space for the Board  
12          meetings and so forth.

13          And into program operations, occasionally,  
14          where they'll go to a site and do a compliance review,  
15          they have a site within a hotel where they can go back  
16          and meet and go back over the findings for the day, and  
17          so they need additional money there for just the rental  
18          of meeting space.

19          The other key area is the operating cost,  
20          \$293,000. Of course, the majority of that, \$70,000, is  
21          for a comprehensive insurance package for the  
22          Corporation, which includes the commercial liability,

1 directors' and officers' liability insurance, and our  
2 travel insurance, everything that is incorporated  
3 there.

4 It also -- this also includes any office  
5 supplies, office equipment that is under \$500,  
6 subscriptions, West Law usage, so it's a lot of smaller  
7 items that make up this amount. And it does approach  
8 290,000 when we do budget it out.

9 And again, for the capital expenditures,  
10 406,000, the two areas of Office of Information  
11 Technology because of the consulting, dealing with the  
12 new computer systems and the upgrade in the grants  
13 management system and 225 in the capital expenditures  
14 for administration for the furniture need. And also,  
15 within the Inspector General, the 107 is the two items  
16 I had mentioned before.

17 MR. SMEGAL: On page 32, column headed number  
18 2, allocations of fiscal year '97 carryover, you've got  
19 the number in there 600,000. Now, was that an estimate  
20 you made at some point and the actual number is  
21 979,122? Was that just a -- that was your best guess  
22 at some earlier point?

1 MR. RICHARDSON: That's correct, sir. And we  
2 had actually estimated at 300,000. Plus, we did note  
3 that all of these different areas of contracts and  
4 purchases that we were making, how much would come  
5 through. So this was our best guess at the time.

6 MR. SMEGAL: So you took 300 and added 300 and  
7 came up with 600?

8 MR. RICHARDSON: Right. Well, and there's  
9 300,000 also from the other funds available, because we  
10 pulled 300,000 of this year's interest money and  
11 included it there. Actually, the heading, to be more  
12 precise, should be allocation of '97 carryover and '98  
13 other funds available. Let me correct that.

14 MR. SMEGAL: Okay. Thank you.

15 CHAIR MERCADO: And looking at the same page  
16 under management administration noncontingency funds,  
17 we don't have any appropriated, set aside contingency  
18 funds?

19 MR. RICHARDSON: We do not.

20 CHAIR MERCADO: We had better be to the penny  
21 on things, huh?

22 MR. SMEGAL: What do you estimate the

1 subleases to be on occupancy costs, and what are we  
2 looking at there? How much -- I mean, you've still got  
3 -- you're still carrying on page 33 the million and a  
4 quarter.

5 MR. RICHARDSON: We got 16,000 a month for the  
6 subleases. So we had multiplied that by 12 and add  
7 that to --

8 MR. SMEGAL: Well, it's 192, yeah. Where do  
9 you put that? Where is it here?

10 MR. RICHARDSON: It goes against the rent, the  
11 occupancy cost.

12 MR. SMEGAL: But how do you show that on our  
13 operating budget? How do you show that you're going to  
14 actually net out 192,000 less?

15 MR. RICHARDSON: Well, for instance, when we  
16 write a check for \$130,000 for the month's rent, we get  
17 a check for 16, so then we show an expense of 114,000.

18 MR. SMEGAL: No, I understand that, but I'm  
19 saying, the number that's carried on page 33 under  
20 administration human resources, if I understand  
21 correctly, is our rent. Is that net?

22 MR. RICHARDSON: It's net.

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1 MR. SMEGAL: Oh.

2 CHAIR MERCADO: So that has already deducted  
3 the sublease?

4 MR. SMEGAL: So then the audit has already got  
5 it netted, too, at a million, 2?

6 MR. RICHARDSON: No. What the audit is doing  
7 is showing only the rent. We're not showing operating  
8 costs.

9 MR. SMEGAL: But I thought that was only  
10 50,000. You're telling me it's more than that?

11 MR. RICHARDSON: Yes, sir.

12 MR. SMEGAL: So it's actually 240,000?

13 MR. RICHARDSON: Yeah, it's about 20 --

14 MR. SMEGAL: 20,000 a month?

15 MR. RICHARDSON: Yeah.

16 MR. SMEGAL: All right. Thanks. I was trying  
17 to find your contingency fund.

18 CHAIR MERCADO: I know. It's not there.

19 MR. SMEGAL: We'll find it.

20 CHAIR MERCADO: We're just using it to --

21 MR. RICHARDSON: Actually, if our interest  
22 rose as well as it has in the past, there would be a

1 small amount, because what -- last year, we earned  
2 \$260,000 in interest. We have only put 300,000 in the  
3 budget. So providing that our interest continues to  
4 grow and you can maintain that, there might be a small  
5 contingency available there for any particular needs.

6 But I would rather come to you and say, "I  
7 have extra money" than come to you and say, "Excuse me,  
8 I overestimated, and I have to subtract from the  
9 budget."

10 MR. SMEGAL: Well, you also have budgeted  
11 savings that I told you about from when I turned 62,  
12 Silver packs from United.

13 MR. RICHARDSON: That's true.

14 (Laughter.)

15 MR. RICHARDSON: What we would like to do --  
16 and Jim stuck his head in here. We do have a  
17 resolution, and again, what we would like to do is ask  
18 that you approve the budget that's before you, subject  
19 to adding the Americorps funds to the budget.

20 And when we do that, we will, of course, make  
21 you aware of how much that is. And it's a pass-through  
22 amount, anyway, to our grantees. So it will increase

1 our budget by that amount.

2 MR. SMEGAL: I'm sorry. What was it last  
3 year?

4 MR. RICHARDSON: Last year, it was 444,000.  
5 This year, we're anticipating 880,000.

6 M O T I O N

7 MR. SMEGAL: If that's a motion that's  
8 appropriate, Madam Chair, I'll make it.

9 MR. RICHARDSON: And we will get the  
10 resolution to you and work with the wording on it.

11 CHAIR MERCADO: Is there a second?

12 MR. BRODERICK: Second that.

13 CHAIR MERCADO: A motion has been made and  
14 seconded to approve the FY '98 consolidated operating  
15 budget as presented, with the future additions of the  
16 Americorps grant. All those in favor?

17 (Chorus of ayes.)

18 CHAIR MERCADO: Opposed?

19 (No response.)

20 CHAIR MERCADO: Okay. Motion carries. Our  
21 next item is reviewing expenses through December 31,  
22 '97. That's also in your Board book, page 35.

1 MR. RICHARDSON: As you see with the  
2 presentation, we are well within the budget. We are 25  
3 percent through the year, and we have spent at a rate  
4 under the temporary operating budget of 770,000, it's  
5 basically 22.7 percent. Also -- and that's within  
6 management administration. Within the Inspector  
7 General's Office, it's 19.2 percent.

8 Since you've just passed the budget, I have a  
9 comparison based on the budget that you've just passed  
10 with the expenses. I'll provide that to you. There's  
11 nothing startling in this. What it does show is that  
12 we're spending at a rate of about 21 percent for  
13 management administration, with the revised figures,  
14 and that we're spending at a rate of 20 percent for the  
15 Inspector General.

16 Rent is on target with what it should be. The  
17 only cost that may jump out to you, we had some  
18 temporary employee hires at the beginning of the year  
19 to help with conversion of data, so our budget for the  
20 year, it's 116,000, we have already spent 56,000, so  
21 we're 48 percent of the money spent. But after this  
22 quarter, there should be very little money spent on

1 temporary hires.

2           The other area is out of operating, with the  
3 293,000 for operating. We have to pay the insurance  
4 costs for the year in October, so what we have -- we're  
5 going to be at 25 percent; we're at 37 percent there,  
6 and that's because of the up-front costs associated  
7 with that.

8           I'll provide this for your review. If you  
9 have any questions that -- the figures do, of course,  
10 match the spending that's in your Board book.

11           MR. SMEGAL: The -- this represents, I guess,  
12 290,000 less than would have been budgeted for the  
13 three-month period. Is there some reason to have some  
14 expectation that we will continue to be under budget a  
15 corresponding amount for the next nine months, or are  
16 there disbursements that occur during the year that do  
17 not fall out quarterly proportionally?

18           MR. RICHARDSON: No. There will be expenses  
19 later on in the year due to hiring of new employees.  
20 When we talk about FTE, when you get an employee that  
21 we'll have for half a year, you have two of those,  
22 you've got one full-time equivalent, but you've got two.

1 employees. So a lot of the costs will be the addition  
2 of employees later in the year.

3 In addition to that, there's going to be some  
4 travel, I understand, included in this budget for the  
5 OPO staff is technology consulting to help with their  
6 field event and to do some forward looking of how the  
7 Corporation can help the field programs with  
8 technology.

9 There's also some compliance reviews that will  
10 happen later in the year. And, of course, there's a  
11 competition initiative. There's travel that will be  
12 involved with that. That always occurs in July and  
13 August and September.

14 MR. SMEGAL: So there are some blips along the  
15 course of the 12-month period that may not be here in  
16 the first three months, but may blip up in September.  
17 So we shouldn't have an expectation of coming in under  
18 budget \$300,000 at the end of the year. This 300,000  
19 will level out somewhere?

20 MR. RICHARDSON: That's correct. The only way  
21 that we would have carryover, of course, is if there's  
22 something that happens, some of the activities are not

1 completed, or if we lose staff during the year. And,  
2 of course, then, you've got a lag of someone leaves and  
3 advertising and hiring somebody to come in.

4 So that's what normally creates the carryover  
5 that we have, the lag when personnel do leave and we  
6 hire somebody to replace them.

7 MR. SMEGAL: Do you actually count on those  
8 shortfalls in salaries in any way in your consideration  
9 of your budget, Mr. Richardson?

10 MR. RICHARDSON: We do not.

11 MR. SMEGAL: Mr. McKay and I served on another  
12 board for a number of years, and they kind of operate  
13 with the understanding that as a result of those  
14 vacancies, that they're going to have a million and-a-  
15 half dollars at the end of the year to put in the  
16 reserves. I won't mention the name of the  
17 organization.

18 MR. MCKAY: Thank you.

19 MR. SMEGAL: It's a nonprofit.

20 MR. RICHARDSON: What we do try to do, of  
21 course, when we look at -- when we come back to you  
22 after reviewing the operations for the first six months

1 when we have a meeting in May or June, we'll project  
2 salary costs for the remaining six months.

3 So if there's any additional money that pops  
4 out that may be available, we'll, of course, report  
5 that to you at that time.

6 MR. HOGAN: May I add something, Madam  
7 Chairman?

8 CHAIR MERCADO: Yeah.

9 MR. HOGAN: One of the things that we would  
10 have to do in the event that we were spending in all  
11 other areas at a level that would exceed what we had  
12 available, we would have to hold up on hiring.

13 MR. SMEGAL: Well, I was more interested in  
14 the opposite side. I can remember a number of years  
15 ago serving on this Board when Harrison McGyver's  
16 predecessors would come in and there would -- Senator  
17 Ruddman's staff would find out there was a million  
18 dollars in funding that wasn't going to be spent.

19 And, as I say, Mr. McGyver's predecessors  
20 would come in and suggest that that should be  
21 distributed to the field. And like my question sort of  
22 had those roots in it, if we end up a million dollars

1 short, having now been 300,000 short for the first  
2 quarter -- we haven't done that in a long time, I  
3 understand, as a Board, I don't think, because we  
4 haven't had those excess revenues.

5 But it would seem to me that may be something  
6 that Mr. McGyver would now come to us and talk about at  
7 future meetings. Would that we were so fortunate.  
8 Pardon me?

9 MR. MCGYVER: I thought that money was short-  
10 term. The fund balance was 1.4 was attributable to  
11 monies that were being --

12 MR. SMEGAL: No, I'm not talking about those.  
13 No, that's in there. But I'm saying, if the result of  
14 shortfalls of staff and other expenditures which are  
15 currently 300,00 under budget for the first three  
16 months become a million dollars, I remember a lot of  
17 tugging and pulling on that kind of money by your  
18 predecessors.

19 MR. MCGYVER: Also, you will remember that  
20 Senator Ruddman was -- set that off against your next  
21 year's budget.

22 MR. SMEGAL: That's right. That was a

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1 reduction.

2 MR. EAKELEY: Is this in the "further and  
3 other business" category?

4 (Laughter.)

5 CHAIR MERCADO: Not yet. I think that was  
6 just sort of a side step, and the Chair apologizes for  
7 not reigning you all in. Anything else?

8 (No response.)

9 CHAIR MERCADO: If not, I would entertain a  
10 motion to accept the report of the expenses.

11 M O T I O N

12 MR. SMEGAL: So moved.

13 MR. BRODERICK: Second.

14 CHAIR MERCADO: All those in favor?

15 (Chorus of ayes.)

16 CHAIR MERCADO: Opposed?

17 (No response.)

18 CHAIR MERCADO: Now, we have consider and act  
19 on other business. Is there any other items?

20 MR. RICHARDSON: There is one item that I  
21 would just like to make you aware of. I'm going to  
22 present it to the full Board for review, but it is the

1 document that Mr. Smegal just pointed to. It is a  
2 draft of the budget document that will go to Congress  
3 in the next week.

4 If you have had an -- I know you haven't had  
5 an opportunity to read it, you just received it this  
6 morning, but if you would have any comments on it in  
7 the next few days, I'm sure Mauricio Vivero, who is our  
8 new director of government affairs and public  
9 relations, would be glad to have those.

10 MR. HOGAN: Madam Chairman, if I may make a  
11 few comments regarding this budget?

12 CHAIR MERCADO: Yes.

13 MR. HOGAN: Our new director of government  
14 relations and public affairs has spent a great amount  
15 of time working on this, gathering data from the people  
16 in the Office of Program Operations. And Bob Eckels,  
17 who had previously worked on this, has spent many hours  
18 at the typewriter preparing this.

19 This is a first draft. We rushed to get it  
20 together because we wanted the Board -- since we knew  
21 the Board was meeting, we wanted the Board to have this  
22 draft and have an opportunity to look at it before we

1 meet with staff upon the Hill to then send it formally  
2 up to the Hill. So this is a draft copy.

3 The amounts that you'll see in here, the 340  
4 million, that's the amount that was approved in the  
5 teleconference. And it's broken out. It's different  
6 than it has been in the past. We added an inflation  
7 factor from 1997 appropriations -- since that amount  
8 was static in 1998, we added 5.5 percent, which was a  
9 CPI index for 1997 to 1999.

10 And that amounts to roughly \$16 and-a-half  
11 million which we have added into the program. And we  
12 call that our base. That's our base program that's  
13 adjusted from 283 to around 300.

14 And our purpose in doing that is we feel since  
15 that's the standard process in the federal government,  
16 where they're allowed a base increase to get to what  
17 they call the current services level, that we should be  
18 allowed to put that -- at least that amount in the  
19 appropriation to adjust it to the current day dollar.

20 And from there, we have a \$40 million  
21 increase. And that's almost exclusively for field  
22 programs. We have broken it down into two pieces,

1 you'll see in your narrative in here. And I think we  
2 have done about as detailed a job as we possibly can,  
3 with the help of OPO. We have done surveys and as much  
4 analysis as we can. We have gathered as much data as  
5 we can from the states.

6 We're breaking it out of two major parts; 23  
7 million of the 40 million will be domestic violence and  
8 unmet needs of children, and 17 million will be client  
9 self-help initiatives and information technology. That  
10 second part, information technology, was something that  
11 we also had in our 1998 budget.

12 In the way of credibility, we have picked up  
13 that same technology piece that we really want, and we  
14 have tried to flesh that out for a little bit more  
15 support.

16 So we would appreciate any comments that the  
17 committee may have. We'll supply a copy of this to  
18 each of the Board members. If there's any questions,  
19 of course, John McKay is here and will be happy to take  
20 them.

21 MR. SMEGAL: I observe -- pages 41 to 42 --  
22 that you have budgeted for an increase in staff of

1 about 10 or so, and is there some breakdown somewhere  
2 -- can you just roughly, briefly indicate where those  
3 people would be? I see where they will be in the  
4 salary advance, but where would you be adding 10 staff  
5 in '99, which part of our --

6 MR. RICHARDSON: Page 41.

7 MR. SMEGAL: I'm on that.

8 MR. RICHARDSON: What we have got there is  
9 management administration, Office Inspector General.  
10 And then page 43 is by office.

11 MR. SMEGAL: Oh, I see. Okay.

12 MR. HOGAN: I might mention to you, though,  
13 Mr. Smegal, that we will at the end of the year have  
14 all but 6 of those 11 positions already on board. So  
15 if this budget doesn't go forward and is not funded,  
16 then we will be in the awkward position of having to  
17 not fill positions again, which is one of the things  
18 that always happens when you're trying to reorganize  
19 and set up a management structure.

20 We're within our FTE allocation, but the  
21 actual number of bodies that we'll have on at the end  
22 of the year will be more than we can fund throughout

1 the full year, unless we receive additional support.

2 MR. SMEGAL: Okay. Well, my concern is, there  
3 is some document somewhere that Congress would see that  
4 would justify these increases in staff based upon what  
5 new programs you have or whatever, and there's some  
6 substantiating document, I see, that this says. Thank  
7 you.

8 CHAIR MERCADO: Any other comments, questions?

9 MR. SMEGAL: It's wonderfully prepared,  
10 excellently prepared document.

11 MR. BRODERICK: Thank you.

12 CHAIR MERCADO: And as soon as we read it,  
13 we'll give you comments. Thank you for trying to get  
14 this to us for this Board meeting. Any other public  
15 comments?

16 (No response.)

17 CHAIR MERCADO: TAG, NLADA, anybody else?

18 (No response.)

19 CHAIR MERCADO: Okay. I will now entertain a  
20 motion to adjourn.

21 M O T I O N

22 MR. BRODERICK: So moved.