LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

MEETING OF THE
FINANCE COMMITTEE

Saturday, January 31, 2009
11:08 a.m.

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

COMMITTEE MEMBERS PRESENT:

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

OTHER BOARD MEMBERS PRESENT:

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

(11:08 a.m.)

CHAIRMAN McKay: I'd like to call to order the finance committee.

The first item on the agenda is approval of the agenda. Do I hear a motion?

MOTION

MR. FUENTES: Move approval.

MS. SINGLETON: Second.

CHAIRMAN McKay: All those in favor say aye.

(A chorus of ayes.)

CHAIRMAN McKay: Opposed?

(No response.)

CHAIRMAN McKay: The agenda is approved.

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

MR. FUENTES: One moment, Mr. Chairman.

(Pause)

MOTION

MS. SINGLETON: Move approval of the minutes
as submitted.

MR. FUENTES: Second.

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

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

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

MOTION

MR. FUENTES: Move inclusion of the item as corrected.
CHAIRMAN McKay: Second?

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

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

(A chorus of ayes.)

CHAIRMAN McKay: Opposed?

(No response.)

CHAIRMAN McKay: The minutes are accepted.

The next item are the draft minutes -- or consider the minutes of the November 1, 2008 meeting.

Any questions or comments?

MOTION

MS. SINGLETON: Move approval as submitted.

CHAIRMAN McKay: Second?

MR. FUENTES: Second.

MS. SINGLETON: All those in favor say aye.

(A chorus of ayes.)

CHAIRMAN McKay: Opposed?

(No response.)

CHAIRMAN McKay: The minutes for November 1 are approved.
The next item on the agenda is staff report on fiscal year 2009 appropriations. Mr. Constance.

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

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

CHAIRMAN McKay: Please.

MR. CONSTANCE: The most timely item is that we were disappointed to learn this week that the 37.5 million foreclosure funding for LSC programs that had been part of the Senate draft stimulus in the 110th Congress was not made part of the Senate version of the most recent stimulus bill. We have confirmed that it was advanced as a priority request by Senator Mikulski.
However, the Senate leadership did not choose to include it in the final bill.

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

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

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

The White House has reported that the Obama administration budget for 2010 will go to the Hill in
two parts. First of all, a policy budget, which will have large goals, large categories of spending, will go to the Congress in February. The actual budget will be submitted to the Congress in early April.

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

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

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

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

(No response.)

CHAIRMAN McKay: Thank you, Mr. Constance.

MR. CONSTANCE: Thank you.

CHAIRMAN McKay: Next item on the agenda is
consider and act on revised temporary operating budget for fiscal year 2009. Mr. Richardson and Mr. Jeffress.

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

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

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

One of the things that we have done at the -- we have decided to retitle Management and Administration to Management and Grants Oversight. I've been with Corporation 20 years, 22 years in March, and
am used to saying M&A, Management and Administration.
So if I slip occasionally and go back to that, just
ignore me or hit me on the head. But I will try to get
to Management and Grants Administration as we talk
about our budget as we go through.

The actual --
MS. SINGLETON: Oversight.
MR. RICHARDSON: Excuse me?
MS. SINGLETON: Oversight.
MR. RICHARDSON: Oversight. Management and
Grants Oversight. What did I say?
CHAIRMAN McKAY: Administration.
MR. RICHARDSON: Sorry.
(Laughter.)
MR. RICHARDSON: Right off. Management and
Grants Oversight. The actual year-end carryover, as I
said, increased $390,000. This additional carryover
was a result of less spending in Management and Grants
Oversight, loan repayment assistance program, and LSC's
Inspector General.

We did have toward the end of the year one
grant recovery, which we're using to increase the
grants from other funds. And we also had an increase in the spending for the U.S. Court of Veterans Appeals, so there's a decrease in carryover of $602 there. That is all detailed in the memo that I presented earlier in the week in regards to my talking points.

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

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

The consulting line, one of the things that we were concentrating on because, as you're aware, we're self-insured on a couple of cases that are being handled right now, we were able to use $100,000 of that money to increase our outside consulting cost or counsel cost through the consulting line. Additionally, we increased the Office of Program Performance travel
$10,000, and we increased the Compliance and Enforcement's travel for $35,000.

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

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

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

At the October meeting, I did not get an opportunity to tell you what this budget pays for. So
in addition to that, what I'd like to do is just take a minute to give you a little breakdown as to what this budget supports.

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

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

We have printing costs, with the maintenance of our printing operations of $75,000. And then this year's directors and officers liability insurance came in at a quote of $146,000. Our total insurance that we pay when we talk about commercial liability or
accidental death and dismemberment when traveling is about $175,000.

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

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

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

And then in the Office of Compliance and
Enforcement, they undertake a number of trips with their case service reviews and their joint visits with OPP, their A-50 follow-up. They do training and technical assistance. They have $100,000 in consultant cost that is projected, and the $225,000 in the travel supports both travel for individual employees and the consultants.

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

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

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

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

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

I know that is a very quick overview, but if you have any questions, I'd be glad to answer them for you.
CHAIRMAN McKay: That was very helpful. Thank you.

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

MS. BeVIER: I have a question.

CHAIRMAN McKay: Yes, Lillian?

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

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

MR. RICHARDSON: It does not. The other areas that are included in the board budget is there is other travel events for the board. And that could certainly be reallocated to accommodate that. Those travel events is for you going -- coming to the Corporation, visiting staff, going to other functions in your particular area with LSC programs where you're representing LSC programs.
But, you know, we can certainly look at that to see that money is made available. We request the budget quarterly, and if we see that there is a need, as you have indicated that there is, we can make additional allocations as we need them into the budget.

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

MR. RICHARDSON: Quarterly adjustment to the budget.

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

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

MS. BeVIER: Thank you.

CHAIRMAN McKay: Charles, you have something
to add?

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

CHAIRMAN McKay: Great. Bernice, then Tom.

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

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

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

CHAIRMAN McKay: Now, as I understand it, some
of the information is contained in the memo that you
gave us and you just presented. But if Bernice would
like to see an actual line-by-line change, that's
something you could put together?

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

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

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

Tom.

MR. FUENTES: Mr. Chairman, just in layman's
terms, I just want to make sure I know what the
committee is doing. Because we have been dealing with
essentially three different budgets before us, three
different fiscal years, we're now talking about the
2009 budget. And we voted on a budget number which was
2010, and there was some division on the committee as
it relates to that one. We're not effecting that at
We are looking at 2009 because we found a little money left over from 2008. And that amount is how much?

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

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

MR. RICHARDSON: That's correct.

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

MR. RICHARDSON: Right.

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

CHAIRMAN McKay: Thank you. Sarah?

MS. SINGLETON: I need some similar help.

There was one fiscal year where we were not going to have the carryover we had been having, and as a result, we had to change the allocation for what is now known
as the Garten LRAP program.

What fiscal year was that?

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

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

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

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

(Laughter.)

MR. JEFFRESS: Could I try that?

MS. SINGLETON: Yes.

MR. JEFFRESS: The $500,000 that was
appropriate in 2008 for LRAP was not spent, and it was
carried forward. It was reprogrammed into M&A and
carried forward in 2009 for M&A. So in 2008, there was
no new money invested or loaned through the Garten LRAP
program. That $500,000 was loaned in this fiscal year.

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

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

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

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

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

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

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

But as far as your question, do we need it for
operations? Yes, we do, because we've now added staff.
Last year we added a number of staff in different offices so that -- mainly in Office of Program Performance so that we could be in the field more. And now we have their full year of salary that we will need to be paying in 2009.

CHAIRMAN McKay: Any other questions or comments? Herb?

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

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

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

If in fact that budget reflects an increase for Management and Grants Oversight -- well, actually,
for any part of LSC, which we anticipate that it will, at least for the field -- you will at your next meeting be presented with a consolidated operating budget to replace this temporary operating budget.

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

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

And with respect to that, our agreement, as Mr. Garten was asking about, was that assuming that the appropriation for Management and Grants Oversight was at least $14.5 million and the -- one house was at 13 and one house was at 16, but our agreement was if the combined -- if the result, final result, for 2009 was at least $14.5 million for Management and Grants
Oversight, that we would then apply to reprogram the 
$500,000 back to the LRAP program that we had 
reprogrammed forward last fall.

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

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

MS. SINGLETON: Who?

MR. JEFFRESS: Federal employees, a 
combination of locality pay and across the board.

Obviously, we're in a competitive environment in terms 
of hiring. It would not behoove us to fall too far 
behind the federal folks.

So if that budget passed by Congress includes 
an increase for Management and Grants Oversight in
addition to the reallocation or reprogramming back of the LRAP money, we would also expect to present to you a proposal for a pay increase for LSC staff.

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

CHAIRMAN McKay: Any other questions or comments?

(No response.)

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

Do I hear a motion with regard to that
motion and recommending it to the full board?

**MOTION**

MS. PHILLIPS-JACKSON: So moved.

CHAIRMAN McKay: Do I hear a second?

MS. SINGLETON: Second.

CHAIRMAN McKay: Any discussion?

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

CHAIRMAN McKay: Great idea. Any other questions or comments?

(No response.)

CHAIRMAN McKay: All those in favor of recommending Resolution 2009-001 to the full board say aye.

(A chorus of ayes.)

CHAIRMAN McKay: Opposed?

(No response.)

CHAIRMAN McKay: That motion passes.

Next item is the presentation on LSC's financial reports for the first three months of fiscal
year 2009. Mr. Richardson and Mr. Jeffress.

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

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

MR. RICHARDSON: It's January 26th.

MS. SINGLETON: Okay. Yes. Thank you.

MR. GARTEN: Mine shows the 23rd.

MS. BeVIER: Do you have extra copies?

MR. RICHARDSON: I do.

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

CHAIRMAN McKay: Yes. Mine does, too.

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

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

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

MS. BeVIER: Thanks.

MS. BARNETT: It was sent on the 26th. It's dated the 23rd.
MS. BeVIER: Oh, well that helps. No. Mine says January 23rd, so -- December Financial Report?

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

MS. BeVIER: Good idea.

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

MS. Singleton: The 26th is actually different than the 23rd one.

CHAIRMAN McKay: Oh, okay.

MS. Singleton: The third paragraph is different.

MR. Richardson: It is slightly different. It was edited later. I apologize for that.

(Pause)

CHAIRMAN McKay: For those of us who read -- so we have in front of us now a document dated January 26, 2009 from you, David, to me. And just for those of us who received the January 23rd version, what changes have been made?
MS. BeVIER: I think the font size.

MS. SINGLETON: No. Look at the third paragraph. There's no "short-term basic field."

Short-term is taken out, or is added. On January 26, the term "short-term" is added in the third paragraph before "basic field programs."

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

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

CHAIRMAN McKAY: Fair enough.

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

MR. RICHARDSON: Yes. It was mainly just some
clarification. For instance, the 507, as you say, where I said was spent in basic field, I just reiterated that it was short-term funding there.

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

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

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

So what you have here is you have the annual
budget, the actual amount that is spent, and then the budget that is 3/12ths of the 12-month budget.

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

CHAIRMAN McKay: Okay. Now I've lost you. Where are you right now?

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

CHAIRMAN McKay: So the first box?

MR. RICHARDSON: The first box.

CHAIRMAN McKay: All right.

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

CHAIRMAN McKay: You're on attachment A?

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

CHAIRMAN McKay: Yes. Okay. Thank you.

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

In the memo I've explained that in January,
January 1st through December 31st, we give grants. As of the writing of this memo, we have awarded $326,195,000 for 2009. That'll show up as an expenditure in the January report.

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

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

And the Inspector General, there's $609,000 expenditures. That's compared to -- of course, his
annual budget is 3.8 that you've just approved. The three-month budget is $959,000, so about $350,000 under-budget at this point for them. And they are actually pretty much on target with what they spent last year, $410 less than what was spent last year.

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

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

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

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

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

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

In the Information Technology, you'll see that there is $10,000 in communication for our telephones and so forth that's been paid to date. And then the areas that we sort of zero in on is the travel of our
Program Performance and Compliance and Enforcement, and you'll see that we have $15,000 in Program Performance consulting along with $18,500 in travel. And then for Compliance, we've had $11,000 in consulting and $26,000 in travel.

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

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

The balance, the cash balance, of $16,141 is what we had at year-end. We've had no expenditures from that. We actually have a very good interest rate at PNC Bank, paying us 4 percent for a period of six months, so we've earned $136 for three months on the money.
Somebody asked me, why don't we put all the money there? They limit you to three transactions a month. So otherwise, it goes back down to a regular interest-bearing checking account.

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

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

CHAIRMAN McKay: Tom?

MR. FUENTES: Thank you, Mr. Chairman. I certainly commend staff and the administration for their conservative and respectful operating and spending in this.
Earlier, the subject of pay raises was somewhat glossed over or mentioned, but without any discussion. And I see that, you know, we're behind in our spending, which is good. And I'm wondering just how automatic pay raises would happen.

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

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

MR. JEFFRESS: Mr. Chairman, if I may, the board always approves the budget for the compensation category, and each year we inform the board what is in there for pay raises. Typically this is done, of
course, before the first of the year. We know what the budget is going to be, and then the amount of the pay raise is decided upon after the first of the year.

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

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

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

CHAIRMAN McKay: Before you do, if management would include as part of its proposed budget pay raises, I'm assuming, particularly in light of Mr. Fuentes' comments, it would be something that would be explicitly invited to our attention and not just part
of a full-blown -- just a line item that might not be discussed?

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

CHAIRMAN McKay: Thank you. Jeff.

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

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

CHAIRMAN McKay: Yes, very briefly. We're running a little behind, so if you could encapsulate
it, we'd appreciate it.

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

CHAIRMAN McKay: Thank you.

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

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

MR. SCHANZ: Very clear, but my speaker doesn't work. You're very clear, and I'm very
sensitive to that also, which is why I mentioned earlier even disparate treatment within the Corporation itself. So yes, that issue will be presented to the board.

CHAIRMAN McKay: Any other questions or comments about the presentation? Charles?

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

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

CHAIRMAN McKay: Thank you. Anything further on this?

(No response.)

CHAIRMAN McKay: I do think this is the
appropriate time for us to get back to an issue that
was raised in the October 14th finance committee
meeting, and this related to the locality pay portion
of salaries not being carried over into this fiscal
year. And it was an error of $220,000.

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

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

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

But if you can just report to the committee
what has happened since then -- I guess it fell off the
tracks, and what you guys have all done to get it back on the tracks.

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

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

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

They will be here today at the audit committee meeting. They certainly will speak to the fact that they have the information, but I can't promise you that
at the audit committee meeting they'll be ready at this point to make a comment on our revised procedures.

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

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

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

I mean, the same that -- you know, it wasn't just yesterday. It was earlier in the week that I asked whether or not it was ready to go. In the same
way I did it, I really would have expected management to be on this and to make sure it was done instead of having the auditor scrambling in the last 24 hours to get it together.

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

MR. FUENTES: Mr. Chairman?

CHAIRMAN McKay: Tom?

MOTION

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

To express the concern of the finance committee in this matter in a more formal fashion, to
make sure that it doesn't in any way slip, I would like to move that the finance committee refer this matter formally to the audit committee and respectfully request, Herb, that it be agendized on your agenda today when it comes time to approve the agenda, and that the audit committee formally address it. Because it's really their responsibility.

I commend you, Mike, for bringing it up here. But I think that it needs to be addressed and put in the minutes that the board, its finance committee, and its audit committee is on top of this. And so I would so move a referral of this matter specifically and a respectful request of the audit committee to agendize this today, discuss it, and to report action to the full board.

CHAIRMAN McKay: Thank you. Herb?

MR. GARTEN: Very briefly, I want to put this all in the context of how it arose. And of course, I'm anxious to hear what Nancy Davis and her assistant, who worked on this audit, recalls as to what took place. I had to leave the finance committee meeting before it was concluded because they were all waiting
for us in a conference room, Nancy Davis, her staff, and Charles. And David was present at this conference also.

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

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

CHAIRMAN McKay: Thank you. Anything further?
(No response.)

CHAIRMAN McKay: Next item on the agenda -- thank you, gentlemen -- next item on the agenda is public committee. Is there any public comment on anything that we've discussed today, or anything else?
(No response.)

CHAIRMAN McKay: Next item on the agenda is consider and act on other business. Is there any other
business?

(No response.)

CHAIRMAN McKay: Next item is consider and act on adjournment of the meeting.

MOTION

MR. FUENTES: Move to adjourn.

CHAIRMAN McKay: Second?

MS. BeVIER: Second.

CHAIRMAN McKay: All those in favor say aye.

(A chorus of ayes.)

CHAIRMAN McKay: Opposed?

(No response.)

CHAIRMAN McKay: We're adjourned. Thank you very much.

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

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