

ORIGINAL

LEGAL SERVICES CORPORATION



AUDIT AND APPROPRIATIONS COMMITTEE MEETING

OPEN SESSION

December 12, 1994

9:23 a.m.

Washington Court Hotel
525 New Jersey Avenue, N.W.
Washington Suite
Washington, D.C. 20001

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803

WASHINGTON, D.C. 20006

(202) 296-2929

BOARD MEMBERS PRESENT:

Maria Lusia Mercado, Chairwoman
Thomas L. Smegal, Jr.
Douglas Eakeley, Ex Officio Chairman of the Board
Alexander Forger, President of the Corporation

STAFF PRESENT:

Edouard R. Quatrevaux, Inspector General
Renee L. Szybala, Counsel, Office of Inspector General
Gerry Singsen, Assistant to the President
David Richardson, Treasurer/Comptroller

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P R O C E E D I N G S

(9:23 a.m.)

1
2
3 CHAIRWOMAN MERCADO: I want to welcome all of you
4 on December 12th to the Audit and Appropriations Committee,
5 and I would note for the record that we do have a quorum.
6 Mr. Smegal and Mr. Eakeley are here for the committee, and
7 also our president of the corporation.

8 Folks that will be testifying this morning will be
9 the inspector general, Mr. Quatrevaux, Mr. Richardson, and
10 Mr. Singsen on the different matters of the agenda. And if
11 there is anyone else that wants to have any input we will
12 deal with that in the consideration of other business.

A P P R O V A L O F A G E N D A

13
14 CHAIRWOMAN MERCADO: As the agenda has been noted,
15 are there any changes or modifications to the agenda? If
16 not, I would entertain a motion to approve it as submitted.

M O T I O N

17
18 MR. SMEGAL: So moved.

19 MR. EAKELEY: Second.

20 CHAIRWOMAN MERCADO: Those in favor?

21 (A chorus of ayes.)

22 CHAIRWOMAN MERCADO: Opposed?

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1 (No response.)

2 CHAIRWOMAN MERCADO: Abstentions?

3 (No response.)

4 CHAIRWOMAN MERCADO: Carried.

5 APPROVAL OF MINUTES OF
6 NOVEMBER 4, 1994 MEETING

7 CHAIRWOMAN MERCADO: Okay, the next item is the
8 approval of the minutes of the November 4th meeting, which
9 was a joint committee meeting between Provisions and Audit
10 and Appropriations. And Mr. Askew pretty much chaired the
11 meeting. The chair was very grateful. I could barely speak.
12 But if there are any corrections to these minutes -- I didn't
13 note any when I was looking at them, unless there was
14 something I overlooked. Did anyone have any corrections or
15 additions?

16 M O T I O N

17 MR. SMEGAL: I didn't find anything that needed
18 correcting, either. I'd move the minutes.

19 MR. SINGSEN: Madam Chair?

20 CHAIRWOMAN MERCADO: Yes.

21 MR. SINGSEN: I am not sure about this. We'd have
22 to check. But this says that Ms. Fairbanks-Williams seconded

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1 the motion to approve the minutes of your committee. I don't
2 think as a non-member she can do that.

3 CHAIRWOMAN MERCADO: Where are we?

4 MR. SINGSEN: It's on page 6. With your
5 permission, we will double check that statement.

6 CHAIRWOMAN MERCADO: Right. I mean, one of the
7 problems with minutes is that, unfortunately, whether or not
8 you took an inappropriate action, that is the correct
9 reflection of the minutes, and they have to stand as they
10 are. All we can note is that she didn't have authority to do
11 it, and I guess we can go back and correct and reapprove them
12 again.

13 MR. SINGSEN: I'm just wondering whether it's
14 possible somebody else seconded that motion.

15 CHAIRWOMAN MERCADO: Oh, okay. Yeah. I mean, I
16 don't --

17 MR. SMEGAL: She did second the other minutes of
18 the Provisions Committee. It may very well be that -- Doug's
19 voice gets a little high once in a while.

20 CHAIRWOMAN MERCADO: Well, and that's the thing
21 when we have a joint committee. I don't think that we
22 actually discuss the procedures in the joint committee as to

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1 who does or doesn't have authority to second a particular
2 business item for a committee.

3 And maybe that's something we should have discussed
4 before we started, and we'll remember to do that at the next
5 joint committee that we have. But if you will check on that.
6 Otherwise, we'll just go ahead and approve them as submitted.
7 All those in favor?

8 (A chorus of ayes.)

9 CHAIRWOMAN MERCADO: Okay. The motion carries.

10 CONSIDER AND ACT ON PROPOSED COMMITTEE

11 MEETING SCHEDULE FOR CALENDAR YEAR 1995

12 CHAIRWOMAN MERCADO: Now, everyone should have
13 gotten a copy of the proposed calendar, budget timetable from
14 October '94 through December '95. It was updated from the
15 one that we received last month. And this has a little bit
16 more definitive items on it.

17 Mainly what I would highlight to you is that we
18 have FY '94 activity, FY '95 activity, and FY '96 activity.
19 We have added FY '97 activity because there will be work that
20 we will start doing for FY '97 starting in May of '95 when we
21 consider the initial budget mark, so that it was appropriate
22 for us to do that in the three-year intervals.

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1 The last calendar that we gave you last month did
2 not have FY '97 information on it. There is also a little
3 bit more detail as to the work that we will be doing.

4 A couple of the items that I want to highlight for
5 you is that in the first column where we have the different
6 dates, October '94, and there's an A&AC meeting. If you will
7 note the different items where there is A&AC meetings, what
8 that means is that for those particular months it is
9 essential that we have a meeting for that.

10 That does not foreclose our ability to have
11 meetings in other areas, but because we have to deal with
12 these particular items that are calendared during that time,
13 that those meetings are definite, and anything else in
14 between that we have to deal with other business we can
15 schedule them at a different time. So I just want to flag
16 that for your attention.

17 MR. EAKELEY: What is our annual -- is it the 27th-
18 28th? Is that the --

19 MR. SMEGAL: Yes, that is correct.

20 CHAIRWOMAN MERCADO: It's the last Friday of the
21 month, so whenever -- of January.

22 MR. SMEGAL: The 27th and 28th.

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1 MR. EAKELEY: I am making my transition from an old
2 to a new calendar. I am trying to downsize it at the same
3 time.

4 CHAIRWOMAN MERCADO: I haven't done that yet. See,
5 I need to do this because this thing is too big to carry.
6 It's good to put all my depositions and everything and
7 clients, but it's big. Let's see. So we are looking in next
8 year, right?

9 MR. QUATREVAUX: Madam Chair?

10 CHAIRWOMAN MERCADO: Yes.

11 MR. QUATREVAUX: There are some additional items, I
12 believe.

13 CHAIRWOMAN MERCADO: Oh.

14 MR. SMEGAL: On this?

15 MR. QUATREVAUX: Correct.

16 CHAIRWOMAN MERCADO: Go ahead.

17 MR. QUATREVAUX: Now, of course, this depends on
18 jurisdiction and all of that how you would like to handle it,
19 but every six months there will be a semiannual report to
20 deal with. And that would be -- the next occasion, if I can
21 find it here -- it looks like --

22 MR. EAKELEY: Now, wait. I've got -- do you have

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1 you schedule?

2 MR. QUATREVAUX: I checked the budget business.

3 CHAIRWOMAN MERCADO: Well, and I think that our
4 comptroller did say that we needed to coordinate, you know,
5 these together, and I just didn't have this. I'm sorry.

6 MR. EAKELEY: There it is. I also think -- I'd
7 like to spend a little bit more time --

8 CHAIRWOMAN MERCADO: I would like the committee --

9 MR. EAKELEY: We haven't spent any time to deal
10 with your report or management's response, but it's a good
11 opportunity to have a discussion concerning the subject
12 matter of the semiannual report with management and the
13 inspector general.

14 And I think that we ought to just structure that
15 into the committee discussion because it's a nice -- it's a
16 semi-annual opportunity, the way the audit report is another
17 opportunity to take a look at how we're doing and how we can
18 improve things.

19 CHAIRWOMAN MERCADO: And I think that there is a
20 sense from the board that perhaps there are some items that
21 may not be self-explanatory to them, particular items. And
22 it's much easier to deal with it in the committee format

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1 rather than trying to bug management or, you know, bug you
2 about what does this mean, and then the rest of us don't get
3 the benefit of discussing the semiannual report and really
4 noting -- I mean, we got it faxed to us from one day to the
5 next to sign off on without really having had a discussion on
6 it.

7 And it would have been good to have that kind of
8 discussion. I hate to send stuff up there to Congress or
9 anybody else that we really haven't -- that all of us
10 understand what's going on, especially since the board is
11 ultimately responsible for some of that, you know, in the
12 oversight, that that would be good. So we are looking at
13 April, and then the other time would be --

14 MR. QUATREVAUX: Well, I put April and October.
15 The reports are due to the board from the OIG at the end of
16 April and the end of October. And then there's 30 days for
17 the board to deal with it and prepare our response. Now,
18 this last time we were able, I think, about the 10th or 11th
19 of the month to get that out as opposed to the 30th.

20 CHAIRWOMAN MERCADO: So that if we could shoot to
21 get it out in the middle of the month, and we can schedule a
22 meeting then so that we could sort of review it and have some

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1 time to have input.

2 MR. QUATREVAUX: The problem, I guess, is I'm not
3 really sure we'll always be able to do that. Certainly we'll
4 try. So I guess it's a question of whether the right month
5 is April or October -- I mean, excuse me, April or May and
6 October or November. Perhaps November and May make more
7 sense.

8 MR. FORGER: Tentatively, the board was scheduled
9 to meet March and May.

10 MR. QUATREVAUX: Right. Well, that would fit into
11 it. And then November for the second semiannual. I don't
12 know what you're showing in November here.

13 MR. RICHARDSON: I do not show a meeting there, but
14 I mentioned that that was a possibility.

15 CHAIRWOMAN MERCADO: Well, I guess part of my
16 concern is if at the end of April you're supposed to submit a
17 report that then management is supposed to respond to and to
18 some extent the board is also supposed to review, if we are
19 having the meeting during the 30-day time period, is that
20 enough of a turnaround time to get things back to you? I
21 guess assuming that we have the meeting early enough in the
22 month.

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1 MR. QUATREVAUX: It's a difficult predicament you
2 are in because it is your report, the board's report. And
3 you are not here 100 percent of the time, and you don't, you
4 know, have a staff solely to support you.

5 MR. FORGER: But the reality is that the management
6 functions are --

7 MR. QUATREVAUX: Yeah.

8 MR. EAKELEY: But there needs to be more -- we
9 haven't had just an opportunity, either board or committee,
10 to discuss the report and the response, not that there have
11 been major issues for discussion, but it's a good thing to
12 structure into our schedule.

13 MR. FORGER: Right, but if this comes to April,
14 management can spend two weeks massaging it, sending it to
15 the board. The board can spend an hour or two at the May
16 -- the committee or the board at the May meeting can spend as
17 much time as it wants.

18 MR. EAKELEY: Yeah. And I know Ed would prefer
19 seeing this at the -- I mean, maybe we should be figuring out
20 a planning process so the full board gets to deal with things
21 that come from the IG that ought to be considered by the full
22 board. And that might be one of the appropriate roles of

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1 this committee pending the Ad Hoc Committee on Governance's
2 recommendations on some of this sort of thing.

3 CHAIRWOMAN MERCADO: Okay. So I'll just put a
4 question mark on October and April and a definite May and
5 November for the IG semiannual report.

6 MR. QUATREVAUX: There's also the possibility to do
7 some of this, I suspect, electronically, telephonically, and
8 perhaps, I mean, you know, I will be able to travel, too.

9 MR. EAKELEY: It may also be worthwhile, Alex, if
10 there are things in Ed's report and/or your response to them
11 that are operations-oriented or provisions-related, we may
12 want to flag those issues or use that opportunity to push
13 them through those respective committees so that it gets the
14 input ultimately of the full board or gets the board as a
15 board focused on the inspector general's report and the
16 board's response to it or whatever it is that it's called
17 that we issue and I sign every six months.

18 MR. QUATREVAUX: I think management report is the
19 euphemism.

20 MR. EAKELEY: Yeah.

21 MR. FORGER: Yeah. Well, I think we would promise
22 within 10 days of its receipt to send it out to every member

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1 of the board.

2 MR. EAKELEY: My ulterior motive here is to just
3 work towards a more engaged and smoothly working relationship
4 between OIG, management, and board, and this just presents an
5 opportunity for that.

6 CHAIRWOMAN MERCADO: See, this is how we have it
7 here in April and October.

8 MR. FORGER: I'm just trying to see how to avoid
9 unnecessary meetings.

10 MR. EAKELEY: Right. None of us aspires to attend
11 even one unnecessary meeting.

12 MR. QUATREVAUX: Right. I would mention that on
13 this, Les, taking up your point, Ms. Chairman, some of these
14 items would appear to be more naturally under the
15 jurisdiction of other committees.

16 CHAIRWOMAN MERCADO: Now, I guess I'm trying to
17 figure, on the sheet that Doug has, you have the response to
18 the semiannual report, April '95, and then also October '95.
19 So are those dates incorrect?

20 MR. QUATREVAUX: Yeah. I think probably May and
21 November makes more sense.

22 CHAIRWOMAN MERCADO: Okay. I just want to make

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1 sure I have it correct here.

2 MR. SMEGAL: You are just talking in generalities
3 at the moment, right? You haven't picked out days of the
4 month, have you? I'll tune in when you do.

5 CHAIRWOMAN MERCADO: I think that if we're going to
6 do it in May it would have to be in conjunction with the
7 board meeting, so that way we can all do it back to back or
8 whatever. I mean, efficiently and economically I think it
9 makes better sense than trying to set it at a different time.

10 MR. QUATREVAUX: Oh, yes. Most definitely.

11 CHAIRWOMAN MERCADO: One question that I was going
12 to have for you, and I'm not sure -- I was trying to figure
13 out -- let me see. I wasn't real clear when I looked at
14 this. Where is it that we get the financial audit?

15 MR. QUATREVAUX: January.

16 CHAIRWOMAN MERCADO: Is it in January?

17 MR. QUATREVAUX: Yeah.

18 CHAIRWOMAN MERCADO: Oh, here we go. Okay. It's
19 the very first thing. It's way over here. Okay. And this
20 is the one that they have been working since August?

21 MR. QUATREVAUX: Yes.

22 CHAIRWOMAN MERCADO: Okay.

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1 MR. QUATREVAUX: We received a draft report on
2 Friday. I haven't read it yet, but --

3 CHAIRWOMAN MERCADO: Okay. Is it possible for us
4 to get, before we meet, to get at least some draft or
5 proposal of the audit report so that when we get to the
6 meeting at least we have some good sense of what's going on
7 and what's being recommended? At least we'll meet ahead of
8 time.

9 MR. QUATREVAUX: Sure. I assume we're meeting at
10 the end of January.

11 CHAIRWOMAN MERCADO: By bylaws, we have to meet the
12 fourth Friday of the month.

13 MR. QUATREVAUX: Twenty-seventh and 28th. Right.
14 Okay.

15 CHAIRWOMAN MERCADO: So if we could get it at
16 least a week before.

17 MR. QUATREVAUX: Yes, we certainly can do that.

18 CHAIRWOMAN MERCADO: If you could correct -- I told
19 both Rudy and Tryphenia that I think IG and general counsel
20 still send stuff to me in Lubbock.

21 MR. QUATREVAUX: Or, you're not in Lubbock?

22 CHAIRWOMAN MERCADO: No.

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1 MR. QUATREVAUX: We changed your Lubbock address
2 early on.

3 MR. EAKELEY: I'm still listed as being in
4 Marstown. That's 10 months ago.

5 CHAIRWOMAN MERCADO: Okay. This is coming to the
6 wrong place.

7 MR. QUATREVAUX: New address.

8 CHAIRWOMAN MERCADO: Yes, because I keep getting
9 stuff forwarded, and I end up getting it a week or two, you
10 know, sometimes 10 days later after you send it.

11 MR. QUATREVAUX: Sure. I'm sure you do. I was
12 unaware.

13 CHAIRWOMAN MERCADO: And I'm like totally in the
14 dark about what --

15 MR. SMEGAL: You know, this may be systematic of
16 the community, Mr. President. I noticed that the incoming
17 treasurer of the NLADA is listed as in California, where he
18 has not been for three years. He's the new treasurer of the
19 NLADA.

20 CHAIRWOMAN MERCADO: Well, yeah, PAG and LAD send
21 stuff to me in Lubbock.

22 MR. FORGER: I can't believe that our records show

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1 that Doug is still at his old firm.

2 MR. SMEGAL: Not the records, but the stationery.

3 CHAIRWOMAN MERCADO: They did change it.

4 MR. SMEGAL: The stationery still lists him --

5 CHAIRWOMAN MERCADO: Yeah, the stationery lists me
6 in Lubbock, but the revised new locator --

7 MR. FORGER: I still have some John O'Hara
8 stationery. Efficient and effective.

9 MR. QUATREVAUX: What's the date of that?

10 CHAIRWOMAN MERCADO: This is 10/27/94. It does
11 have my new address, but she ended up including the Lubbock
12 office anyway. Just disregard Lubbock office, because things
13 are getting too confused. Even though I'm going back and
14 forth doing trials and finishing up, just --

15 MR. SMEGAL: Is there still a physical Lubbock
16 office? Is there someone there that gets the mail and throws
17 it in the wastebasket?

18 CHAIRWOMAN MERCADO: Yeah.

19 MR. SMEGAL: Good.

20 CHAIRWOMAN MERCADO: Yeah, there is.

21 MR. QUATREVAUX: Wears a little uniform, drives a
22 white truck with a U.S. Postal --

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1 CHAIRWOMAN MERCADO: Still does.

2 MR. QUATREVAUX: That was off the record.

3 CHAIRWOMAN MERCADO: Well, our postage is going up.
4 Any other items that folks can think of other than the IG's
5 semiannual report that need to be added? Well, the other
6 thing that needs to be added here that I didn't write is that
7 in June of '95 Audit and Appropriations is doing a
8 conjunctive meeting with Ops and Regs on all the fiscal
9 regulations.

10 MR. SMEGAL: When is that?

11 CHAIRWOMAN MERCADO: June. June of '95.

12 MR. SMEGAL: June what?

13 CHAIRWOMAN MERCADO: June. I don't know what day
14 in June, because we need to check and see what the calendar
15 looks like. But Ops and Regs when it meets has decided that
16 it's better to convene like in two full-day chunks so that
17 they can get a lot of the regulatory stuff done. But we were
18 looking at the fact --

19 MR. QUATREVAUX: Oh, the fiscal?

20 CHAIRWOMAN MERCADO: Fiscal regs.

21 MR. QUATREVAUX: Fiscal regs, my prediction, Madam
22 Chair, will be a very detailed exercise.

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1 CHAIRWOMAN MERCADO: It might require two meetings,
2 you know. I mean, we may meet in August or July or whatever.
3 But it would be a joint meeting of the Audit and
4 Appropriations and Ops and Regs. And we did want to do it in
5 an off time when the board was not meeting. And we also
6 wanted to do it past the main time when we would be going up
7 to Congress for budgetary hearings on FY '96.

8 MR. QUATREVAUX: To the extent that there might be
9 any desire to make changes that would improve accountability,
10 that would be to your advantage, obviously, with that timing
11 it would not. I don't know that that reg process can be
12 advanced much.

13 CHAIRWOMAN MERCADO: See, part of the problem is
14 that the delivery working group that is working that
15 particular aspect won't be meeting I believe they said until
16 April some time. Was that right?

17 MR. SZYBALA: I don't know. I don't recall when it
18 was.

19 CHAIRWOMAN MERCADO: March or April, which is
20 still, you know, beyond that time. And so part of the
21 problem is that we want to have them sort of do the first run
22 and work out as much of the kinks of it as possible before it

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1 gets to us and in conjunction, of course, with the general
2 counsel's office, IG's office.

3 MR. QUATREVAUX: Provisions have a role in that?

4 CHAIRWOMAN MERCADO: Not on the fiscal ones.

5 MR. QUATREVAUX: Okay.

6 CHAIRWOMAN MERCADO: Unless there is some
7 particular provision.

8 MR. SINGSEN: Well, they might have on some of
9 them. Fund balance regulations are very much concerned with
10 the role as a planning tool.

11 CHAIRWOMAN MERCADO: I'm sure they can't hear you.

12 MR. SINGSEN: The fund balance regulation is very
13 much involved with planning for the use of fund balances, and
14 that's certainly a kind of issue which Provisions conceivably
15 could be asked to comment on.

16 I think perhaps what would be useful would be for
17 us to take a look at the current situation with regard to all
18 the regs. I think that revision of the audit guide, which
19 was discussed yesterday, also plays into this and may bring
20 some of the issues that are in 1627 through 1631 to the fore.

21 And we probably ought to give you a firm idea of
22 how we can schedule the work with the delivery working group

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1 to produce draft regulations that are ready to be discussed.
2 And I think the question whether some of that discussion
3 would be wise to be held earlier than June is a question that
4 we ought to think about.

5 CHAIRWOMAN MERCADO: Okay.

6 MR. SINGSEN: I think we can certainly provide you
7 with that report at the January meeting and that that should
8 give us plenty of time for planning purposes.

9 CHAIRWOMAN MERCADO: Okay. We would need to
10 coordinate with Ops and Regs, because I know that they have
11 some other regulations that are closer to being published or
12 in the final stages of publication. So we will work with
13 them. And we will look into that, Mr. Singesen. We can try
14 and bring it up closer -- it would be relevant, as you say
15 -- and do the budgetary.

16 MR. SINGSEN: What comes to mind also, and it plays
17 into this jurisdictional question -- I'm not sure how you
18 would like to proceed, but I gathered from yesterday's
19 comments that the board has a desire to approve an audit
20 guide or at least approve its publication for comment.

21 I'm sorry to say this, but my preference would
22 simply be to issue it under the authority of my office. But

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1 clearly that's not the sentiment. The board wants an
2 opportunity to take a look at the --

3 MR. EAKELEY: I think we need to take a look at the
4 issues, the policy issues, the most important of which is
5 just government accounting standards, but also the legal
6 issue that Gerry raised yesterday also about if these
7 supplant other audit guides that were published as
8 regulations, there are several legal issues there that need
9 to be addressed, I think, one of which is if the others
10 publish regulations, how do you get rid of them if you want
11 to replace them with something else?

12 MR. SZYBALA: They were not published as
13 regulations.

14 MR. QUATREVAUX: But they were published prior to
15 the IG Act, too.

16 MR. EAKELEY: They are not published as
17 regulations?

18 MR. SZYBALA: They were put out for notice and
19 comment, but they are not part of the CFR. They are not part
20 of the code.

21 MR. EAKELEY: Okay. Well, then, we just need a
22 game plan for getting us -- I think we need, for starters,

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1 management's input. But I see them as -- I see the two,
2 really, the transfer of responsibility to the OIG for the
3 audit function and the adoption of or whether to adopt a new
4 audit guide -- they may have different time tables in
5 implementation.

6 But I think that the board ought to make those
7 decisions -- hopefully be in a position to make those
8 decisions by our March meeting. And I think that with them
9 both come implicitly strategies for implementation, how does
10 management propose transferring staff and budget
11 responsibilities if that's the way to go.

12 And is there a way to, if we go to a different set
13 of auditing standards for the field, is there a way to
14 implement that that is less onerous, less disruptive, but
15 consonant with the objectives of the IG in upgrading the
16 audit standards to which audits are performed?

17 I got a lot out of our discussion yesterday, even
18 though it was just to get that on the table rather than to
19 understand all the issues. But I think that it may well be
20 worthwhile to ask Programs to expend a little bit more of
21 their scarce resources in upgrading their audit performance
22 because of the importance, always there but perhaps more so

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1 now, of the accountability function.

2 It may also be that it is consistent with federal
3 policy in federal agencies to have a threshold level of size
4 or size of federal funding that permits the smallest of the
5 programs to avoid some unnecessary cost.

6 So these are things that we need to look at, we
7 need input from management for, and we have to shape a
8 decisional strategy. The implementation issues will be part
9 of that decision, as I see it.

10 CHAIRWOMAN MERCADO: And basically what that is
11 telling us is that, as I noted to you, Mr. Chairman, that the
12 committee meetings that we have noted here were those that
13 dealt specifically with the different items in our outline
14 here. And, for example, this whole discussion of audit
15 guides, the regulations that deal with the fiscal and
16 financial aspect of the corporation are items that really are
17 not taken into consideration in this calendar. And that
18 would be items that we would have to work in, you know,
19 during different times and so forth that we deal with.

20 We want to make sure that we are able to deliver a
21 -- if in fact we are legally required to give notice and to
22 publish or even if we're not legally required to do that, I

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1 think that as far as the field is concerned, I think it would
2 be good protocol to at least get some comment and some
3 feedback in some of that area as well, you know.

4 And I'm not sure as to the legal status of it
5 because I haven't looked into it. But in any event, all
6 those, I hope, will be some answers that both IG and
7 management can get back to us, you know, within the next
8 month or so so that we can see what it is that we are
9 required to do.

10 MR. QUATREVAUX: Madam Chair, let me just ask,
11 management and I have under way interviews associated with
12 audit personnel and that sort of thing. And I believe that
13 we are going to reach accommodation there. And I would like
14 the permission to go ahead and proceed with that without any
15 further discussion of the issue.

16 MR. FORGER: This is reassignment of personnel?

17 MR. QUATREVAUX: Yeah.

18 MR. FORGER: Yeah.

19 MR. QUATREVAUX: We've got lead times. We've got
20 to train the people to bring them up to standards. We have
21 to develop some internal procedures for the work that they
22 are going to be doing in this area.

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1 MR. EAKELEY: Alex, where are you on this?

2 MR. FORGER: Well, we've reached an accommodation
3 with the inspector general as to allocation of responsibility
4 and work, with a few variations, and also the reassignment of
5 personnel.

6 And I think that if we, you know, in the next
7 couple of weeks can identify what are the issues we need to
8 resolve that are still left open on the cost and notification
9 and the consequence of getting whatever -- management has,
10 what, a supplemental piece in respect of that financial audit
11 that it has to consider?

12 And we'd set out a mechanism whereby the inspector
13 general's office would get the financial, would review it,
14 would refer to management items that related to performance
15 deficiencies or notice. Inspector general would keep those
16 things that clearly evidence something like financial abuse
17 or fraud, so that I think that we've got a pretty good
18 working arrangement there.

19 MR. EAKELEY: Well, I'm comfortable -- to the
20 extent there's an accommodation, I think we ought to be
21 encouraging its development. So if there's a voice of
22 approval needed for encouraging that, then I think we can

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1 -- maybe it's just a sense of the committee that this is
2 something that ought to continue proceeding.

3 CHAIRWOMAN MERCADO: Right. And all my caveat is
4 is that if there is anything that we should have done legally
5 to notice anyone in any of this change or reorganizing or
6 what have you --

7 MR. EAKELEY: Congress.

8 MR. FORGER: Like group programming notice.

9 CHAIRWOMAN MERCADO: My group programming, if you
10 know you're going to handle some financial ends. All I'm
11 saying is that those matters get taken care of, and our
12 general counsel has told me we can get --

13 MR. EAKELEY: Maybe just double check on that.

14 MR. QUATREVAUX: Well, it's also whatever the
15 outcome is of this process. It will certainly be reported in
16 the next semiannual report which you will have in early
17 April.

18 MR. EAKELEY: But I think we need to know if this
19 entails a reprogramming and make sure that the notice to the
20 Congress is given sufficiently in advance because the notice
21 is supposed to hit before any changes occur.

22 CHAIRWOMAN MERCADO: And that's all I was concerned

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1 about, you know. I just didn't want to get hit with some of
2 this stuff later on.

3 MR. QUATREVAUX: We'll certainly check that out.

4 CHAIRWOMAN MERCADO: And then as far as the audit
5 guide and any fiscal regulatory changes, then, just between
6 the IG's office and management, comptroller's, to get some
7 input back to us on how best to approach that and, of course,
8 with the delivery working group, whatever it is that they are
9 working with, so that we have a better sense of how we can
10 deal with these.

11 MR. SZYBALA: Can I just -- hopefully I can stop
12 myself from going too deeply into this and taking up too much
13 time, but I just want to say the timing on the audit guide
14 troubles me to some extent. To understand what the audit
15 guide is, I supposed you'd have to see it. But the audit
16 guide is not an accounting guide. It's got no instructions
17 to programs in there. It tells the outside auditors what
18 they need to check in terms of fiscal compliance.

19 Now, when we did the audit report on monitoring the
20 field, one of the things that was found in that audit was
21 that 75 percent of what Mac was doing in the field in on-site
22 visits was duplicating work that should be done by auditors,

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1 that was being done by auditors, was financial in nature, and
2 shouldn't be done by LSC, should be done by the field.

3 And basically that part of it is what management
4 has accepted and is trying to implement, what government
5 standards are, the standards that apply government-wide for
6 having outside auditors check compliance with financial laws.

7 To say you're going to have outside auditors take
8 over this compliance checking, monitoring function but
9 they're not going to give you the reports that are due under
10 government standards that say, "We haven't found any
11 violations" makes that shift of monitoring an exercise in
12 taking away accountability.

13 And one of the problems here is that with a
14 statutory function, a statutory mandate to see government
15 audit standards implemented in fields -- that is basically
16 what the IG Act says -- you are kind of putting us in the
17 position where you're going to see this in the next annual
18 report. I mean, there are certain things that we keep out of
19 the annual reports as a matter of our own policy. There are
20 certain things we can't in my view --

21 MR. EAKELEY: Putting aside the GAGAS issue for a
22 moment, we are not only supervising a required annual audit

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1 by local auditors of local grantees and changing the locus of
2 that supervision from OPEAR or MAC to the Office of the
3 Inspector General, but we are doing a lot of other compliance
4 monitoring and updating that simultaneously, including asking
5 local auditors to undertake some of the compliance monitoring
6 that relates to the financial regulatory requirements.

7 Now, that means that there's probably a gap left
8 that is represented by adoption of GAGAS, but it's not a
9 gulf. It seems to me, and it may be only conceptually and
10 therefore I may be totally wrong, but the difference
11 separating what we're moving to from where you'd like to get
12 is -- we're closing the gap, and to close it completely would
13 be adoption of GAGAS.

14 Ed said something yesterday about federal policy or
15 practice or statute, not imposing the requirement to comply
16 with GAGAS if there are grants of less than whatever it was
17 you mentioned. That interested me, because that suggests a
18 recognition that under certain circumstances it is not
19 appropriate or cost effective to require this heightened
20 exercise in a financial audit for certain recipients of
21 federal funds. Am I right so far, Renee?

22 MR. SZYBALA: Yeah, but I think that point is kind

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1 of moot because if you're moving to having the auditors check
2 compliance, there is going to be a cost associated with that.

3 MR. EAKELEY: Right. Yes. Correct.

4 MR. SZYBALA: All you are leaving out by saying
5 "check compliance" is get back to us on it. I mean, what the
6 government standards do is tell the auditor what reports they
7 have to do after they have checked compliance.

8 MR. EAKELEY: Don't you think we ought to cost out
9 the consequences of imposing this standard before we do so?

10 MR. QUATREVAUX: We did that. There's a complete
11 cost analysis as an appendix to the grantee monitoring audit
12 report.

13 MR. EAKELEY: Okay.

14 MR. QUATREVAUX: Now, there have been deviations
15 from the model that was costed, but you should know that the
16 whole peer review program is being financed by the reduction
17 in monitoring costs. Okay?

18 MR. EAKELEY: I mean, I would like to see us get to
19 GAGAS, frankly, but I don't want to do it at a cost that
20 could be punitive for some programs. I just want to make
21 sure that if there are programs that are -- I do think it's
22 inappropriate at incremental cost if it's merely that for

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1 heightened accountability. But I think we need to know more
2 about it than we now know. And we need input from management
3 and from the field before we take that final step. I think
4 we're moving that way.

5 CHAIRWOMAN MERCADO: Right. And one of the things
6 that I had mentioned to the IG yesterday is that, you know,
7 we did some local analysis with some of the programs, and to
8 do a GAGAS accounting went anywhere from like \$4,500 to
9 \$9,000 additional cost for doing that.

10 Now, what it was based on, why it was that way,
11 that is enough to hire a secretary in some cases. And so
12 you're telling a local program that doesn't have the
13 advantage of a funding component that that's what they're
14 going to have to do. Then we have to, as an entity, provide
15 the additional income to deal with those needs.

16 And that's why we had asked, when the whole issue
17 of GAGAS was brought up almost a year ago, to give us a cost
18 analysis of how much more is that going to cost. Now, on FY
19 '96, part of the money that we are allocating is to deal with
20 what I am assuming was a cost analysis of what it would cost
21 to do GAGAS for all the programs. Now, for FY '95 we don't
22 have that additional money.

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1 MR. FORGER: May I say a word about that?

2 CHAIRWOMAN MERCADO: Yes.

3 MR. FORGER: It seems to me we are all seeking the
4 same objective --

5 MR. SZYBALA: Mm-hmm. It's just a question of
6 when.

7 MR. FORGER: -- certainly management is, to
8 implement the right level of accountability standard subject
9 to a rule of reasonableness and reasonableness in the burdens
10 they pose as well as the time schedule. And until we have
11 the guidelines together that we agree on and understand what
12 the implications are, we can't really resolve it.

13 MR. SZYBALA: I agree, but I think what I was
14 suggesting is just faster movement. You know, if management
15 and the IG would get together on what you want the auditors
16 to do, whether it's GAGAS or not, you see, if they are asking
17 the auditors to take on extra functions there's got to be
18 guidance to the auditors.

19 MR. FORGER: So what do you want us to do, Renee?

20 MR. SZYBALA: I want to see it published.

21 MR. FORGER: What do you want me to do tomorrow in
22 the office?

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1 MR. QUATREVAUX: I would like to get management's
2 comments on the draft audit guide that was provided on the
3 21st of November. And you'll see where we are.

4 MR. FORGER: Okay.

5 MR. EAKELEY: But, Ed, we do have a March timing
6 deadline for that. And I thought we thrashed this out a
7 little bit yesterday also. And, yes, this is one of those
8 all due speed forward because we need it and everyone agrees
9 that we need it. It's just a question of how fast we can --

10 MR. QUATREVAUX: Can we do this? Can we, after we
11 get together and see where we are, if we are in essential
12 agreement, can we put on the agenda for January simply
13 consideration of whether to publish to get those comments?

14 MR. EAKELEY: I think the board can move as fast as
15 management and the IG can move. But I don't want to impose
16 on Alex and his -- I thought we got the sense yesterday -- I
17 got the sense yesterday that it might be unreasonable of us
18 to impose a January deadline. If you can work it out so that
19 it's back to the board or this committee in January, great.

20 MR. QUATREVAUX: Is that fair enough, Alex?

21 MR. FORGER: Sure. Along with the other things for
22 which we have responsibility, we will try to do that.

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1 CHAIRWOMAN MERCADO: Mr. Singesen?

2 MR. SINGSEN: Just two small matters. One, I think
3 it's clear that as to GAGAS itself the terms of -- the facts
4 that Ms. Mercado has been referring to, the cost issues and
5 the like, the present use of GAGAS and how much of an
6 extension would be required, I think a lot of the facts are
7 going to need to be pinned down. There have been some things
8 said which we don't need to go into now about which clearly
9 there are some disagreements about just the facts of what is
10 happening.

11 Second, one thing that's been said leads me to
12 suspect we have another problem that nobody has mentioned.
13 The current audit guides do, in fact, have considerable
14 accounting guidance. Consequently, I think what the IG is
15 proposing is not consistent with the current audit guide
16 content. And we may have two documents that we have to
17 publish.

18 MR. EAKELEY: Or consolidate, or -- they have to be
19 reconciled clearly.

20 MR. SZYBALA: No. Do you mean accounting guide? I
21 mean, we kind of let management know a long time ago it's
22 kind of a management function to do an accounting guide.

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1 MR. SINGSEN: So that for some reason -- it hasn't
2 been mentioned, but there is a second issue here, which is to
3 separate the current audit and accounting guide into two
4 guides.

5 MR. QUATREVAUX: This is the understanding under
6 which we have been proceeding for a considerable amount of
7 time.

8 MR. SMEGAL: We being you or we being the OIG
9 staff?

10 MR. QUATREVAUX: Well, I think, all of us. Well,
11 some of the staff.

12 CHAIRWOMAN MERCADO: Well, again, that brings again
13 to this committee the fact that we haven't spent the time
14 that's necessary as far as the IG aspect of it. I know we
15 try to do a lot of it informally.

16 But I don't think that works that way, because
17 people have different schedules, and things aren't getting
18 back to us, and as a committee having the ability of input
19 from both management and IG's office with the board to have
20 some discussion so that we all are moving forward in
21 hopefully the same direction.

22 And ultimately what this board wants more than

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1 anything else is that we want to have accountability not only
2 to Congress but to a granter and our clients that everything
3 is on the up and up, that we are using our money responsibly,
4 are fiscally responsible.

5 And it's just a matter of making sure that as we
6 get there we have crossed our t's and dotted our i's with
7 everything that needs to be done, a notice on any issues,
8 that we have the input so that everyone understands under
9 what guidelines they are supposed to be working.

10 And inasmuch as we want to move very quickly, I
11 also don't want us to move so quickly that we overlook a lot
12 of things that we need to take care of in the process, or at
13 least that the board feels or has the sense of comfort that
14 we have covered the areas that we need to cover.

15 And I know from looking at the calendar that the IG
16 submitted we had looked at dealing with the government audit
17 standards and the new audit guide in March of '95 and
18 reviewing the audit recommendations also in March of '95.
19 So, as I stated earlier, if we're able to get that done by
20 January that would be fine with us.

21 You know, we just want to make sure that both
22 groups are talking and discussing and getting the input and

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1 also getting the input from the delivery working group in
2 some of those areas that they are working in as well.

3 Any other additions on this calendar?

4 (No response.)

5 CHAIRWOMAN MERCADO: Okay. I guess it's not
6 necessarily an approval that we need in here other than just
7 a note for the committee and for ultimately the board of what
8 our schedule looks like, more of a recommendation, I guess, a
9 guideline.

10 MR. EAKELEY: Yes. Al, this is going to be a
11 little difficult, but ideally it would be great if we could
12 ask Pat Batie, and maybe I'll do this when we're back
13 reconvened, but to take the dates from the different
14 committees and timetables and try to meld something.

15 CHAIRWOMAN MERCADO: A master calendar?

16 MR. EAKELEY: And then we can work on it and get
17 comments from the OAG and from management and then circulate
18 it to the board. That's part of sort of an upgrade of what
19 we might do for communications with the board.

20 CHAIRWOMAN MERCADO: If the comptroller, IG's
21 office can incorporate some of those other areas that we need
22 to work on and maybe sort of get an additional sense on of

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1 that.

2 MR. EAKELEY: I also think if we're -- I'm sorry.

3 MR. QUATREVAUX: No, go ahead. You're on
4 scheduling. Go ahead.

5 MR. EAKELEY: I also think that if we go to a bi-
6 monthly board meeting that certain things that the full board
7 should receive should go out by mail in the interim, and
8 those are, I think, the monthly financial statements on how
9 we're doing compared to budget or something that the full
10 board ought to get, and maybe we could develop a package
11 mailer. We want to keep up the --

12 MR. FORGER: Sure. The litigation report or
13 anything else that's on --

14 CHAIRWOMAN MERCADO: The president's monthly
15 report.

16 MR. EAKELEY: The president's monthly or bi-weekly
17 or whatever, but probably plan a non-Federal Express care
18 package, and plan it so it's not just a random selection of
19 11 different directors say, "I think this ought to be in the
20 package, Pat," but do something so that the level of
21 communication is improved even though the frequency of the
22 full board meetings is reduced.

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1 CONSIDER AND ACT ON METHODOLOGY FOR
2 DETERMINING THE LEVEL OF COMPENSATION
3 PAID TO THE INSPECTOR GENERAL

4 CHAIRWOMAN MERCADO: Okay. The next item on the
5 agenda is to consider and act on methodology for determining
6 the level of compensation paid to inspector general.

7 MR. SMEGAL: We have here in front of us a
8 September 14 memo from Ed and John Broderick. Is this the
9 last document in this process?

10 MR. QUATREVAUX: Yes, it is. It's entirely
11 comprehensive. It contains pretty much all that's been said
12 on the subject that's printable.

13 MR. SMEGAL: I've read it very carefully. All
14 right. I found it to be very helpful. I just wanted to make
15 surer that I wasn't looking at a prior draft or something that
16 was not the most recent. Let me see if I understand how
17 management other than the president's salaries are
18 determined. For example, the --

19 MR. EAKELEY: Executive vice president?

20 MR. SMEGAL: -- the executive vice president or
21 possibly even our general counsel.

22 CHAIRWOMAN MERCADO: How are their salaries

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1 determined?

2 MR. FORGER: Well, I guess, again, awaiting the
3 arrival of a director of administrative services to create
4 more order in our system than now exists, we take the people
5 at the level where they are and use the current process in
6 respect of evaluations and increases.

7 And, as you know, we had a salary freeze for last
8 year. And so the level of the, say, the general counsel and
9 controller and all others save those who we have hired in
10 recent times has been a historical matter and simply take
11 what increases seem to be appropriate.

12 MR. SMEGAL: So they are in a sense arbitrarily
13 set. They are not set by a guideline or schedule or anything
14 like that?

15 MR. FORGER: Right. They are not scheduled. No.

16 MR. SMEGAL: Only the president's --

17 CHAIRWOMAN MERCADO: No. Like the general counsel
18 is like at 87 percent, the president --

19 MR. SMEGAL: Well, but that just happens.

20 MR. FORGER: That happens.

21 CHAIRWOMAN MERCADO: That just happens that way.

22 And that's how they --

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1 MR. EAKELEY: Only the president's salary is in a
2 sense limited by statute.

3 MR. SMEGAL: Do we have any intention, Mr.
4 President, of setting salaries of some of the management
5 people at a percentage of the president's salary? Has there
6 been any thought given to that?

7 MR. FORGER: No. At least I haven't given any
8 thought to that. What I would like to do is when we get to a
9 review of personnel practices and policies, to try to
10 establish a criteria for a given job and a range of
11 compensation for a particular job and also an evaluation
12 system unlike what I've inherited, which is sort of a
13 checklist, and everybody ends up being extra superior.

14 And then every increase of 120 people has to go
15 through the president in order for the president, who had no
16 experience with these people, perhaps, to approve or
17 disapprove that rating. So it really needs a marked
18 revision, but ultimately that's what we would work to.

19 CHAIRWOMAN MERCADO: You know, one of the things
20 that -- and, of course, you have worked some with federal
21 systems, but my very limited knowledge of both federal and
22 state systems is that they've got all these different like,

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1 let's say, level 5, and in level 5 you've got like from A
2 to --

3 MR. SZYBALA: Eleven steps.

4 CHAIRWOMAN MERCADO: You know, 11 steps or 12
5 steps. And that I know when I was in the attorney general's
6 office is sort of what we had in doing that. And even within
7 Legal Services there's level so-and-so and so many steps that
8 you go up depending on how many years you've been there and
9 everything.

10 What comparability, you know, either you or Mr.
11 President can tell us whether we have even that kind of
12 system within M&A or is that something that doesn't exist at
13 all?

14 MR. QUATREVAUX: I can tell you what we have. What
15 we have --

16 CHAIRWOMAN MERCADO: And the comptroller is here,
17 who deals with all these different --

18 MR. QUATREVAUX: We have a seven-level pay scale.
19 The median grade is in the level 6, which is to say right
20 under the top level. It's that way because the pay scale is
21 dysfunctional. It bears no relation to the cost of living in
22 this area or the cost of labor, more appropriately.

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1 We actually have two compensation or three
2 compensation systems. We have one that applies to the worker
3 level, one that applies to management, because the pay scale
4 tops out at \$66,000.

5 CHAIRWOMAN MERCADO: For which one?

6 MR. SZYBALA: Level 7.

7 MR. QUATREVAUX: For the existing pay scale. So
8 everyone that makes more than that is in another zone that is
9 called unclassified at the highest level, and you have the
10 president, the maximum being set by statute, and the IG is in
11 none of those.

12 MR. EAKELEY: Senior Executive Service also? There
13 is also a Senior Executive Service --

14 MR. QUATREVAUX: Not in our system at LSC.

15 MR. EAKELEY: Oh, okay.

16 MR. QUATREVAUX: That's correct. That's correct.

17 CHAIRWOMAN MERCADO: So it's unclassified?
18 Everyone above level 7 is unclassified?

19 MR. QUATREVAUX: That's correct.

20 CHAIRWOMAN MERCADO: And I know this has nothing to
21 do with you, Mr. Forger. I remember when we were looking at
22 the budget last year at this time and trying to figure out

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1 what we were going to propose for Congress for budget and
2 then trying to deal with the almost \$3 million dollar deficit
3 that we had at hand that, in fact, there was not a whole lot
4 of rhyme and reason to how compensation was given or the fact
5 that many people had to gotten any kind of merit raises in
6 many years it seemed like.

7 So it wasn't really -- the salaries weren't really
8 related to what their tasks or duties or what they had
9 accomplished that year, their evaluations. You're right.
10 They had these evaluations that were not comparable. So we
11 have, I guess, at the top level 14 -- okay. We're looking at
12 '95 budget. We have 21 at LS level 7, which is between
13 \$46,986 to \$66,535. And then, unclassified positions for the
14 '95 budget, we will have 15.

15 MR. RICHARDSON: If I can, Madam Chair, I show you
16 that just to show you the breakout of the salary levels.
17 That is a budget document with the first budget that was
18 submitted to Congress at the 848 level, so the number of
19 people in those levels is less. That is to show you --

20 MR. EAKELEY: The budget numbers. Those just show
21 you the level, the salary ranges within each level?

22 MR. RICHARDSON: That's correct.

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1 MR. EAKELEY: Thanks.

2 MR. RICHARDSON: And as far as the merit system and
3 raises, until the salaries were frozen on January 1 of '94
4 everybody had been evaluated and given increases --

5 MR. EAKELEY: That is incorrect, but that's -- but
6 wait.

7 MR. RICHARDSON: With the exception of three or
8 four people.

9 MR. SZYBALA: That's not true at all.

10 MR. QUATREVAUX: Well, I assume you're suggesting
11 the IG group was not subject to raises?

12 MR. SZYBALA: He's in charge of the IG's office
13 personnel. That's a separate system.

14 MR. QUATREVAUX: It's an observation you're making
15 of going on in the staff.

16 MR. RICHARDSON: Right. There are a few people on
17 the staff who for some reason the prior administration would
18 not -- as Mr. Forger says, he signs off on everybody's raise
19 that's above a satisfactory. Prior administration had three
20 to four people in the general counsel's office, in
21 particular, that they refused to sign off on so their
22 salaries had been frozen, the general counsel being one of

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1 them.

2 MR. SZYBALA: And that still hasn't been signed off
3 on raises for '94; is that right?

4 MR. EAKELEY: I think the only issue before us
5 -- we're not a personnel committee. Management hasn't done a
6 personnel function. It inherited the staff that we asked
7 them to inherit. The issue is we had two meetings ago agreed
8 with the IG's request that we take him off of an employment
9 contract that had been negotiated by my predecessor and
10 effectively leave him an at-will employee.

11 But we left open at that time the issue of
12 compensation, again recognizing that there are delicate
13 issues involving compensation of an inspector general that
14 would be compromising if they could be seen to be linked to a
15 clean bill of health when the health wasn't so clean or the
16 like.

17 And thus the ultimate concept, or not ultimate but
18 the concept was explored of a linkage between the inspector
19 -- there are only two officers of the corporation reporting
20 to the board directly. Those are the inspector general and
21 the president. The president's salary is limited by statute.
22 And the concept then was, all right, well, if this is the

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1 statutory scheme for the president, let's adopt that for our
2 inspector general as well.

3 MR. SMEGAL: Well, I'm sorry. If I have caused you
4 to start this review with my question --

5 MR. EAKELEY: No, I was just responding more to the
6 subject of how many people in level 4 we have at the
7 corporation.

8 MR. SMEGAL: Okay. My question was for the purpose
9 of trying to determine if there are management people in the
10 corporation who have a fixed -- now, you just said limited
11 with respect to the president. I think it's fixed. I think
12 we pay any president of this corporation whatever the
13 statutory amount is.

14 If a president were to come in with less experience
15 as a comptroller might or a general counsel might, we might
16 have the discretion to pay less. But do I understand
17 correctly that Mr. Forger or someone in his position would
18 get \$108,000 no matter what their qualifications were?

19 MR. FORGER: I think it says, "shall receive no
20 more than."

21 MR. SMEGAL: No more than. So it is a limitation
22 rather than a fixed amount.

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1 CHAIRWOMAN MERCADO: Right. And so, I mean, we
2 could have hired someone at 80 percent of that level,
3 actually.

4 MR. EAKELEY: I see where you're going.

5 MR. SMEGAL: Yeah. Well, my concern was that if we
6 tie the IG to some particular percentage, as he has
7 suggested, and I think it has some merit because it does
8 remove from us the need to get into the box that our chair
9 was just suggesting might happen, that somehow we've got a
10 carrot out there. If he or she gives us a clean bill of
11 health he gets X rather than Y.

12 And I think that's important. And I like the idea
13 of tying it to something where we don't have to exercise any
14 judgment or discretion whatsoever. And if I understand the
15 suggestion is to tie it to the maximum level of the president
16 as opposed to what we pay a president or what we may be
17 paying the general counsel or the comptroller. And do you
18 have one more of those for me, too?

19 CHAIRWOMAN MERCADO: Here's a cream just for you.

20 MR. EAKELEY: May the record reflect its
21 appreciation for Gerry Singen's enduring service to the
22 corporation.

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1 MR. SINGSEN: I have finally found my level of
2 competence. Sugar, Tom?

3 MR. SMEGAL: Now that I have coffee I won't say
4 anything more.

5 CHAIRWOMAN MERCADO: Mr. Smegal, looking at Section
6 1005(D) of the corporation Act, it says, "Officers and
7 employees of the corporation shall be compensated at rates
8 determined by the board but not in excess of the rate of
9 level 5 of the executive schedule specified in Section 5316
10 of Title 5, U.S. Code."

11 MR. SMEGAL: Does that include the president?

12 CHAIRWOMAN MERCADO: Officers and employees. I
13 mean, I think it's the bylaws that have the president -- I
14 mean, I don't have the bylaw in front of me.

15 MR. QUATREVAUX: I recall Bill McCalpin saying that
16 he had made a decision to take it out of the bylaws, the
17 president's compensation. I don't know if that occurred. I
18 think somehow, and I'm not sure of the specifics, but I think
19 the mechanism is that the statute limits the president's
20 compensation and something else limits everyone else to no
21 more than the president. I'm not sure where it would be
22 found.

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1 CHAIRWOMAN MERCADO: Yes, because this is officers
2 and employees. The board sets the levels.

3 MR. EAKELEY: No.

4 CHAIRWOMAN MERCADO: No, this is what the Act says.
5 "Officers and employees of the corporation shall be
6 compensated at rates determined by the board but not in
7 excess of the rate of level 5 of the executive schedule
8 specified in section 5316 of Title 5, U.S. Code." So we can
9 set the rates, you know, for the comptroller, the secretary,
10 everybody else.

11 The fact that they haven't done so or that it's
12 been a long time since someone has done it and they have just
13 sort of continued in history, you know, just bringing in
14 people and keeping them at whatever levels they were at
15 doesn't mean that we don't have the authority to review
16 and --

17 MR. EAKELEY: Well, I think we've delegated that to
18 the president. And, indeed, by statute the IG deals with the
19 salaries of his staff.

20 MR. FORGER: Bylaws. That which is not underscored
21 is what exists today. That may not --

22 MR. SMEGAL: Well, I'm intrigued by the concept.

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1 CHAIRWOMAN MERCADO: Okay. Here's the bylaw. Now,
2 let me read you the bylaw so then we have that, the bylaw
3 section 610, compensation.

4 "The president shall be compensated at a rate
5 determined by the board from time to time but not to exceed
6 the rate of level 5 of the executive level specified in
7 Section 5332, Title 5, U.S.C. The compensation of each
8 officer other than the president shall be fixed by the
9 president after consultation with the board at a rate not to
10 exceed the rate of level 5 of the executive schedule
11 referenced above.

12 "No officer of the corporation may receive any
13 salary or other compensation for services from any sources
14 other than the corporation during his or her period of
15 employment by the corporation except as authorized by the
16 board," which -- I'm assuming the IG doesn't get additional
17 funding from anybody else. I mean, I don't know.

18 MR. QUATREVAUX: No. That's an idea.

19 MR. SMEGAL: Do I understand from that reading that
20 the general counsel or the comptroller could be compensated
21 at the same level as the president?

22 CHAIRWOMAN MERCADO: Yes.

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1 MR. SMEGAL: And that could be the maximum provided
2 for at level 5?

3 CHAIRWOMAN MERCADO: Right.

4 MR. SMEGAL: Or at some other lesser amount at the
5 recommendation of the president?

6 CHAIRWOMAN MERCADO: And the board has to approve
7 the levels, you know, for that amount, except that I think
8 that this board has just delegated the responsibility to the
9 president to decide how they're going to compensate the
10 people that they hire for the different officer positions.
11 But if we wanted to take back that authority, we could, not
12 that I'm suggesting that.

13 MR. SMEGAL: Well, maybe I'm unduly complicating my
14 deliberations here, and maybe they are all just machinations,
15 but it seems to me that if we were to fix the IG at a
16 percentage of this level 5, in other words, fix it rather
17 than limit it -- we're talking about fixing it -- it's
18 conceivable that there could be circumstances where the IG
19 would be the highest paid person in the Legal Services
20 Corporation.

21 MR. QUATREVAUX: It needs that modification, I
22 think.

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1 MR. SMEGAL: But I can see both sides of that,
2 though. I mean, why, if we've got a very experienced
3 inspector general who should be getting X percent of Y,
4 because we have an inexperienced general counsel or
5 comptroller or president, why should the inspector general be
6 limited?

7 MR. SZYBALA: Based on that reading of the bylaws,
8 it occurs to me -- I'm sorry to start new stuff -- that to
9 institutionalize this, which is what you are thinking about
10 now, I think, and to just have something set in stone about
11 how LSC will determine an IG's salary, that language with
12 that same "not to exceed level 5" should be fine except to
13 say that the board does it.

14 I mean, see, that language leaves out the IG. It
15 says, the board shall set the president's, not to exceed
16 level 5, and the board shall set officers and employees --

17 MR. FORGER: It just says officers.

18 MR. SZYBALA: Officers. Okay. Not to exceed
19 -- maybe you are already in that. I don't know. But, see,
20 that's all been delegated except the IG, so nobody --

21 CHAIRWOMAN MERCADO: Well, I suppose that part of
22 what we would have to determine legally is because the IG was

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1 not an existing entity when these regulations and when this
2 statute was passed, whether you could, looking at an analogy
3 of history -- and I know you have given us your memo here on
4 how other people have looked at it.

5 But if you already have existing statutes and
6 regulations that govern compensation can you, in fact -- I
7 mean, because the statute says, Officers and employees of the
8 corporation shall be compensated at rates determined by the
9 board not in excess of rate of level 5." That's what the Act
10 says. And so are you, in fact, an officer or an employee of
11 the corporation?

12 MR. SZYBALA: A employee.

13 CHAIRWOMAN MERCADO: You are an employee of the
14 corporation. So it's obvious that it gives us the authority
15 to do that as a board, to set those levels not to exceed
16 -- level 5 is just the top level that anyone can get.

17 MR. EAKELEY: May I make a formal motion? I would
18 propose that we recommend to the board that our inspector
19 general's salary be fixed as a percentage of the statutory
20 maximum compensation set by law for the president.

21 MR. SMEGAL: Is there a period?

22 MR. EAKELEY: Period.

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1 MR. SMEGAL: So you've left open -- you've got a
2 blank in that as to the percentage?

3 MR. EAKELEY: Left as to the percentage because I
4 want to talk about that, but I want to narrow the discussion
5 a little bit. And I am also avoiding the bylaws issue,
6 because there is an open issue still for discussion about
7 whether or not the bylaws should address the inspector
8 general and how.

9 And I know Ed's request was to have his
10 compensation included in the bylaws. We will get there. But
11 I don't think that we need to reach that today in order to
12 set his compensation for 1995.

13 MR. QUATREVAUX: That's the institutional issue.

14 MR. EAKELEY: Yes. Correct.

15 CHAIRWOMAN MERCADO: And I was told by the chair of
16 Ops and Regs that that's something that they wanted to deal
17 with.

18 MR. EAKELEY: Yeah. We have a president who is
19 making the maximum statutory. I hope we're going to keep him
20 for a long time. I don't think the issue of hiring somebody
21 at less than that is really here today. And we would like to
22 address the issue of how we compensate Mr. Quatrevaux.

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1 MR. SMEGAL: I would be prepared to second your
2 motion provided that it was limited to 1995.

3 MR. EAKELEY: That's fine. And we'll address the
4 institutional issue and bylaw change, I think, going forward
5 if that's --

6 MR. SMEGAL: 1995 being the fiscal year we're
7 operating under which started October 1.

8 MR. EAKELEY: No, I think this was a calendar -- I
9 actually didn't think about it, but I was trying to get this
10 in place for January 1, 1995, for the calendar year. But I
11 was actually thinking of it as open-ended, going forward,
12 rather than giving him a retroactive salary increase.

13 MR. SMEGAL: Well, I think this has been around for
14 a while. And I wouldn't be uncomfortable at all making it
15 retroactive to the beginning of our fiscal year. I don't
16 want to negotiate my second. I'll second.

17 MR. EAKELEY: Okay.

18 MR. SMEGAL: We can discuss it further.

19 CHAIRWOMAN MERCADO: Okay. Is it possible for you
20 to tell me what the motion was specifically? There were two
21 different --

22 MR. EAKELEY: The motion was to set the

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1 compensation for calendar year 1995 for Inspector General
2 Quatrevaux as a percentage of the statutory maximum
3 compensation for the president.

4 CHAIRWOMAN MERCADO: However, Tom said something
5 about that.

6 MR. FORGER: He seconded it.

7 CHAIRWOMAN MERCADO: That he seconded it, but then
8 he added going back to FY '95, which is different.

9 MR. EAKELEY: We are back to calendar year 1995.

10 CHAIRWOMAN MERCADO: Back to calendar year '95.

11 Okay. That was not clear to me. Any further discussion on
12 that issue?

13 MR. SMEGAL: Okay. So it's open as to percentage,
14 and the motion is as to the calendar year as opposed to the
15 fiscal year. Let me speak to it. I think that there is some
16 argument and justification that can be made for having this
17 coincide with our otherwise fiscal year, which would have it
18 be retroactive in this sense back to October 1. I guess I
19 don't have as good argument as I'd like because I guess the
20 rest of management has calendar years from which they are
21 reviewed? No? Tell me.

22 MR. RICHARDSON: Hire date.

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1 MR. SMEGAL: That's what I meant. Hire date.
2 That's what I'd call a calendar year, hire date. So my
3 understanding is --

4 CHAIRWOMAN MERCADO: So that would be a problem for
5 me. That would be a problem for me, going back to
6 retroactive, because you've got a lot of other management
7 positions that, because of the way the contracts are
8 structured now, they do have whenever their start year is
9 before they can even be considered for anything, it doesn't
10 matter what we bring in in FY '95, so that it's on their hire
11 date.

12 MR. SMEGAL: At what point in time did we take you
13 out of our management structure?

14 MR. QUATREVAUX: Oh, I think it was in May. You
15 mean out of the employment contract?

16 MR. SMEGAL: Yes.

17 MR. QUATREVAUX: Yeah, it was in May. Let me just
18 speak to that. You have fingered the one logical date would
19 be the anniversary date. Equally so the 1st of January
20 because that's when the federal pay scale tends to change.

21 And the point I think Maria was making is we have
22 had a pay freeze in effect for calendar year 1994, and I

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1 really think it would be in the best interests of the
2 corporation if any pay increase took place on the 1st of
3 January as opposed to retroactive. But I thank you for
4 your thoughtfulness.

5 M O T I O N

6 MR. SMEGAL: I will withdraw any further expression
7 of concern and move the question.

8 CHAIRWOMAN MERCADO: All those in favor?

9 (A chorus of ayes.)

10 CHAIRWOMAN MERCADO: Opposed?

11 (No response.)

12 CHAIRWOMAN MERCADO: Abstentions?

13 (No response.)

14 CHAIRWOMAN MERCADO: The motion is carried.

15 MR. SMEGAL: Fill in the blank.

16 MR. EAKELEY: Fill in the blank.

17 CHAIRWOMAN MERCADO: We need to fill in the blank.

18 MR. EAKELEY: What was the proposal before, Ed?
19 What was the percentage?

20 MR. QUATREVAUX: John Broderick and I had discussed
21 95 percent. The whole issue you're dealing with is one of
22 comparability, so that, I think, is the guiding criterion.

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1 CHAIRWOMAN MERCADO: That was part of the -- I know
2 I had had a discussion with some of the committee members
3 trying to figure out the duties or delegations. I mean, you
4 know, if you are heading the IG's office and the president is
5 heading the corporation, trying to look at your duties and
6 responsibilities and what you have to handle and how that
7 equates, I mean --

8 MR. EAKELEY: It's difficult. They are two
9 completely different --

10 CHAIRWOMAN MERCADO: It's difficult because they
11 are totally different entities, you know, because they are
12 both equally important, but I think they have different types
13 of responsibilities and capabilities, just like I would say,
14 you know, the comptroller is solely responsible for dealing
15 with the financial end of it, you know, or the president is
16 responsible for looking at the whole aspect of what is going
17 on.

18 And so there are different responsibilities and
19 experiences that are brought to bear. I don't have a strong
20 feeling one way or the other percentage-wise, you know. I
21 would think that at least at a minimum it should be probably
22 at 90 percent of whatever the total, you know, probably no

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1 lower than that, because some of the other management
2 positions are in the 80 percentile of the president.

3 MR. QUATREVAUX: But those positions, Madam Chair,
4 don't report directly to the board, and they don't have some
5 of the unique responsibilities of my office.

6 I think, and I'll make the point, that 95 percent
7 was really a figure that was arrived at by looking at what
8 the next highest salary was. And it's my belief that it
9 would be inconsistent. I don't know how the IG and the
10 president's compensation could be comparable if people who
11 work for the president -- if their compensation was greater
12 than that of the IG.

13 MR. FORGER: I think, if I might, Madam Chair --

14 CHAIRWOMAN MERCADO: Yes.

15 MR. FORGER: -- you report to the board, Ed, not,
16 as I understand it, because your responsibilities, activities
17 and scope of labor is so significantly larger than, say, the
18 executive vice president or the controller, but that's a
19 happenstance of independence which, therefore, does not
20 necessarily mean that there is a greater level of activity
21 which should receive a greater level of recognition from a
22 compensation point of view.

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1 MR. QUATREVAUX: I think it's not activity-based.
2 I think it's responsibility-based.

3 MR. FORGER: Well, sure. I mean, you are not to be
4 subjected to the whims of management because you are
5 reviewing management.

6 MR. QUATREVAUX: Correct.

7 MR. FORGER: And, therefore, I think that is a
8 compensation-neutral issue that your line of authority goes
9 to the board, which doesn't necessarily mean the work you do
10 is more important than the work of anybody else in the
11 corporation.

12 MR. QUATREVAUX: Well, I wouldn't want to put it on
13 terms of relative importance.

14 MR. FORGER: All I'm saying is I think that is an
15 irrelevant factor to compensation.

16 MR. QUATREVAUX: Well, that is contrary to the
17 OMB's read on it as expressed in their guidance to the
18 federal agencies. They mentioned a number of factors, one of
19 which is the fact that I not only report -- and I shouldn't
20 make this personal -- that the IG doesn't report only to the
21 board. The IG has two bosses. And the other one is
22 Congress.

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1 MR. FORGER: Well, then, you should get more than
2 the president.

3 MR. QUATREVAUX: No. I think --

4 MR. FORGER: Because I only have one boss.

5 MR. QUATREVAUX: Right. You are fortunate.

6 MR. SMEGAL: I know it doesn't seem like that to
7 you.

8 MR. FORGER: Right. Just 11.

9 CHAIRWOMAN MERCADO: No, no, but I mean, you know,
10 part of it, I think -- it's difficult for us in trying to
11 figure out -- you know, we are obviously new to this, I mean,
12 that we're being put in this.

13 And so in trying to figure out what is a fair
14 compensation that would deal with your independence issue,
15 that will deal with your duties and responsibilities as are
16 required -- and I was trying to figure in my mind, you know,
17 the IG's office, although it is independent to me, in many
18 ways was like looking at a division, like looking at OPEAR or
19 looking at comptroller's office.

20 I know that you don't view it that way. But when I
21 look at the actual practicalities of the work that is done
22 and carried out by that division, be it this division is an

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1 independent division that is not under the supervision of
2 management but totally under the supervision of the board.

3 Now, like I said, I am not married to any -- I
4 definitely thought that it shouldn't go below the 90 because
5 other people were in those 80 percentile, and if you wanted
6 to be at an independent with the president, but again trying
7 to figure out all the duties and responsibilities that the IG
8 has versus the president for work, And somehow they don't
9 equate.

10 I mean, just that they are worked on. That doesn't
11 mean that they are not as equally as important. I'm just
12 -- you know, day-to-day type of work, I guess. I mean, it's
13 sort of how I evaluate, you know, whether I pay one paralegal
14 or one secretary different than the other -- and that's not a
15 fair analysis, I guess -- or an experienced lawyer versus a
16 non-experienced lawyer. And I'm just throwing this out for
17 feedback. I don't know. I'm trying to figure it out.

18 MR. SMEGAL: Ed, your footnote 4 provides an
19 average. I'd be curious to know, if you have that
20 information at hand, what the actual range is and what
21 constitutes a small agency.

22 MR. QUATREVAUX: It is dated.

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1 MR. SMEGAL: I appreciate that it's '93, as the
2 footnote indicates. Yeah.

3 MR. QUATREVAUX: Right.

4 MR. SMEGAL: And I understand that it has been
5 adjusted. Whatever numbers you have are subject to an
6 adjustment which results in 101 in this particular document.

7 MR. QUATREVAUX: Correct. The adjustment, I think,
8 is 4 percent.

9 MR. SMEGAL: Yeah, 4.23, as I would understand it.

10 MR. QUATREVAUX: I think --

11 MR. SMEGAL: Does 108 get adjusted?

12 MR. QUATREVAUX: It looks like the highest is the
13 130.

14 MR. SMEGAL: Which is the Postal Service, which is
15 a fairly good size. Are these all small agencies?

16 MR. QUATREVAUX: Yeah.

17 MR. SMEGAL: These are called small agencies?

18 MR. QUATREVAUX: These are all the designated
19 federal entities covered by the '88 amendments to the IG Act.

20 CHAIRWOMAN MERCADO: What are the ranges?

21 MR. SMEGAL: What would constitute a small agency?

22 MR. QUATREVAUX: Well, most of those.

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1 MR. SMEGAL: The Postal Service is a small agency?

2 MR. QUATREVAUX: No, unfortunately, but there is no
3 definition of small agency. They just put them with us
4 because, I guess --

5 CHAIRWOMAN MERCADO: What does the Peace Corps
6 have?

7 MR. SMEGAL: Well, what did you mean by small
8 agency in your memo?

9 MR. QUATREVAUX: Well, I was referring to these.

10 CHAIRWOMAN MERCADO: Is the broadcasting company
11 there? That's the closest.

12 MR. QUATREVAUX: I was using the term
13 interchangeably. Even though there are two --

14 MR. SMEGAL: Oh, see. So even though this 101
15 comes with -- including the Postal Service.

16 MR. QUATREVAUX: That's correct. It also includes
17 the two-person Board of International Broadcasting.

18 MR. SMEGAL: And Federal Reserve. Okay.

19 CHAIRWOMAN MERCADO: What do the broadcasting
20 people do?

21 MR. QUATREVAUX: They give grants. They only have
22 two grantees, Radio Free Europe and Radio Liberty.

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1 CHAIRWOMAN MERCADO: That's it?

2 MR. QUATREVAUX: Yeah.

3 CHAIRWOMAN MERCADO: The Corporation for Public
4 Broadcasting?

5 MR. SZYBALA: No, no, the BIB, the Bureau for
6 International Broadcasting.

7 CHAIRWOMAN MERCADO: Oh, I'm sorry.

8 MR. QUATREVAUX: I'm sorry.

9 CHAIRWOMAN MERCADO: The CPB is not there?

10 MR. QUATREVAUX: Yes, it is, and that's a poor
11 example, in my opinion.

12 CHAIRWOMAN MERCADO: What do they get?

13 MR. QUATREVAUX: I don't know.

14 CHAIRWOMAN MERCADO: Because we're always compared
15 to the Corporation for Public Broadcasting in the sense of
16 size and funding and whatever.

17 MR. SZYBALA: You don't want to compare yourself to
18 them.

19 CHAIRWOMAN MERCADO: I know, but I'm just telling
20 you that that's what we're always compared with financially.

21 MR. QUATREVAUX: I would -- I think Renee is right
22 -- put some distance from that analogy.

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1 CHAIRWOMAN MERCADO: What are they, \$73,000?

2 MR. QUATREVAUX: Seventy-three. Correct. And the
3 Peace Corps.

4 CHAIRWOMAN MERCADO: What's the Peace Corps?

5 MR. EAKELEY: A hundred and fifteen seven.

6 MR. QUATREVAUX: I extracted the non-federals from
7 there because you had asked a question about that. The
8 average there was 114,000.

9 MR. EAKELEY: I'm a little uncomfortable with this
10 discussion for three reasons. One, its dealing with a salary
11 level now for a well-regarded individual to whom we'd like to
12 give a salary increase but nevertheless there are
13 institutional considerations that go both internally and
14 externally.

15 Secondly, there was a negotiation with John
16 Broderick, who is not here today, and this is a board issue
17 ultimately because we are the one -- the board is the one who
18 hires and to whom the IG reports.

19 Thirdly, I haven't had a chance to talk to the IG
20 about this. And I'm wondering whether the committee, with
21 the leave of the IG, might permit deferral of the fill in the
22 blank to the full board meeting at 11:00 just to permit a

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1 little bit more legally permissible under the Sunshine Act
2 caucusing on an issue which is individual and personal at
3 this point so that we can --

4 CHAIRWOMAN MERCADO: Well, and I think that the
5 level of uncomfot for me is that because all the other
6 positions that were negotiated with the comptroller or
7 general counsel, you know, we're doing it in the privacy of
8 your office or whatever else.

9 And I think that that's part of the level of
10 uncomfot from my perspective of having to discuss that, yet
11 we have to discuss it and put it in the sense that would be
12 independent and wouldn't be tied to performance or anything
13 like that.

14 And I apologize if all that is having to come out
15 although we're dealing with the institutionalization and
16 process of this, hopefully, where it would be something that
17 anybody in the future can deal with without even having to
18 think about it because it's set at a level, just like the
19 level is set here. And I think that that's the right
20 direction that we're heading for. But I don't mind deferring
21 that to --

22 MR. SMEGAL: Well, I really was trying to deal with

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1 this in the abstract and without personalities involved,
2 trying to set something in stone that would apply to IGs that
3 may come to this corporation 100 years from now or whatever.
4 So I don't feel that discomfort, but I do understand that
5 there might be some advantage in Mr. Broderick's absence to
6 our chair having 27 minutes.

7 CHAIRWOMAN MERCADO: Okay. That's fine. We'll
8 defer that aspect then.

9 MR. SMEGAL: We'll leave the blank.

10 CONSIDER AND ACT ON OTHER BUSINESS

11 CHAIRWOMAN MERCADO: Any other business that we
12 need to discuss? Mr. Richardson, if you would just send us
13 pro forma a copy of the monthly expenses you incurred, that
14 amount to all of us we'd appreciate it. Thank you.

15 M O T I O N

16 MR. EAKELEY: Move to adjourn.

17 CHAIRWOMAN MERCADO: Move to adjourn.

18 MR. SMEGAL: Second.

19 CHAIRWOMAN MERCADO: All in favor?

20 (A chorus of ayes.)

21 CHAIRWOMAN MERCADO: Thank you.

22 (Whereupon, at 10:45 a.m., the Audit and

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