

LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

FINANCE COMMITTEE

OPEN SESSION

Sunday, May 19, 1996

3:00 p.m.

The Legal Services Corporation
750 First Street, N.E., 11th Floor
Washington, D.C. 20002

COMMITTEE MEMBERS PRESENT:

Maria Luisa Mercado, Chair
Thomas F. Smegal, Jr.

BOARD MEMBERS PRESENT:

Douglas S. Eakley

STAFF PRESENT:

Martha Bergmark, Executive Vice President
David L. Richardson, Comptroller and Treasurer
Edouard R. Quatrevaux, Inspector General
Renee Szybala, Office of the Inspector General
David Maddox, Office of the Inspector General
Al Puglia, Office of the Inspector General
Gerry Singen, Program Officer
Karen Voellm, Chief of Audits

Diversified Reporting Services, Inc.

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WASHINGTON, D.C. 20005

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P R O C E E D I N G S

1
2 CHAIR MERCADO: We are going to do a limited
3 convening of this committee meeting, since the Finance
4 Committee, along with the other committees, is going to meet
5 to be briefed on items that need to be approved for the COB
6 that the Finance Committee will approve later on in the day.

7 What we will do, committee members -- Mr. Smegal --

8 MR. SMEGAL: Yes.

9 CHAIR MERCADO: -- is that we will go ahead and
10 approve the agenda and approve the minutes, and then we will
11 recess and reconvene, probably around 4:30, when we are
12 through with the briefing from the Ops and Regs Committee and
13 the Provisions for Delivery of Legal Services Committee on
14 the budgetary items.

M O T I O N

15
16 MR. SMEGAL: All right. Do you want to approve the
17 agenda? If so, I move the approval of the agenda.

18 CHAIR MERCADO: We're in consensus.

19 MR. SMEGAL: Oh, always.

20 CHAIR MERCADO: I'm sorry, I forgot this. The only
21 thing that we would need to do for the agenda that needs to
22 be changed is item number 2, receiving the report of

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1 Thompson, Cobb, Bazilio & Associates, Certified Public
2 Accountants on the audit

3 MR. SMEGAL: Yes.

4 CHAIR MERCADO: This item number 2 will be taken up
5 by the full Board tomorrow morning, and that was primarily
6 done so that we wouldn't have to have --

7 MR. SMEGAL: Them show up twice.

8 CHAIR MERCADO: Yes, have them show up twice. It
9 will save us some money not having to pay twice for the same
10 report. This way the full Board can ask any questions that
11 they might have of the audit, and we will approve it then.

12 MR. SMEGAL: Okay.

13 CHAIR MERCADO: So item number 2 will not be
14 reviewed on this agenda. It will be --

15 MR. SMEGAL: That is being removed from the agenda.

16 CHAIR MERCADO: Right. So, other than that, we
17 will approve the budget with items 1, 3, and 4.

18 MR. SMEGAL: Done.

19 CHAIR MERCADO: Now, the minutes of the last
20 meeting, were there any changes or corrections to those
21 minutes?

22 M O T I O N

1 MR. SMEGAL: None that I saw, and I move their
2 approval.

3 CHAIR MERCADO: We will go ahead and accept the
4 minutes for the prior meeting for approval without any
5 changes to those minutes.

6 MR. SMEGAL: All right.

7 CHAIR MERCADO: Again, we will do that by
8 consensus, since there's just the two of us. I will note for
9 the record that Mr. Richardson and Mr. Sensing, Mr. Maddox,
10 and Ms. Voellm are present at the Finance Committee meeting.

11 Again, you weren't here when we announced at the
12 beginning of the meeting, Ms. Voellm, that we're going to
13 recess to get the briefing at Provisions Committee and Ops
14 Committee on the COB budget and the different items that
15 we're going to have to approve, and then we'll come back,
16 probably between 4:00 and 4:30, to finish up for the Finance
17 Committee in review and approval of the COB budget, which
18 will include the inspector general's budget.

19 We stand in recess. We're in consensus; right?

20 MR. SMEGAL: Right.

21 (Whereupon, at 3:05 p.m., the committee meeting was
22 adjourned.)

1 CHAIR MERCADO: It's 5:15. We will note for the
2 record that the Finance Committee has been in the conjunctive
3 Ops and Regs and Provision for Delivery of Legal Services
4 meeting.

5 MR. SMEGAL: We've been busy.

6 CHAIR MERCADO: We've been busy.

7 MR. SMEGAL: We weren't goofing off.

8 CHAIR MERCADO: We tried to be brief in all the
9 nuances of Section 509 and the Act, 3019. Having said that
10 for purposes of our public, we've already approved the
11 agenda, with the exception of item 2 of the agenda. That
12 will be covered by the full Board tomorrow.

13 The minutes have been approved, and so now our
14 third item on the agenda, which is to consider and adopt
15 a proposed revised consolidated operating budget for FY 96,
16 implementing Public Law 104-134, otherwise known as
17 H.R. 3019, which will be recommended to the Board for its
18 adoption.

19 At this point, I will call on our treasurer-
20 comptroller, David Richardson, to do the presentation.

21 REPORT OF DAVID L. RICHARD, TREASURER AND COMPTROLLER

22 MR. RICHARDSON: Thank you, Ms. Mercado. For the

1 record, my name is David Richardson, and I'm the treasurer-
2 comptroller of the Corporation.

3 Earlier in the week, last week, you were forwarded
4 a package that was labeled, "Consolidated Operating Budget
5 for Fiscal Year 1996." The first page within that package
6 does present a statement of the funds available for the
7 Corporation during this Fiscal year.

8 It has four columns across the top. They are
9 titled Grant Funds, Management and Administration, Inspector
10 General -- which is a new line that was established by
11 Congress in H.R. 3019 -- and then a Total line.

12 The first line of the analysis shows the
13 appropriation as to how it was broken down. \$269,400,000 in
14 grant funds; \$7,100,000 in management and administration; and
15 \$1,500,000 for the inspector general.

16 The second line of the analysis shows the deferred
17 revenue. This is money that was appropriated -- it was
18 actually a pass-through to us from Office of Management and
19 Budget for the Florida-Georgia flooding of two years ago.
20 This is set up as a revolving fund. We have a balance of
21 \$35,777 there.

22 Just to let you know, there was less money in the

1 line up until last September: Right at the end of the year
2 we received about an \$8,000 refund from one of our grantees
3 who did not use all of the funds. So this is set up as a
4 revolving fund. The money goes back into that budget line to
5 be used for any other special emergency that may occur.

6 Within the 1995 budget, in the undesignated, you'll
7 see in the Grant column, there is an amount of \$38,749. This
8 is money that was set aside for a migrant program in Hawaii.
9 The money was awarded to them in November.

10 In Management and Administration, you'll see that
11 there is a deficit of \$310,266. It's made up of two elements
12 -- the fund balance for Management and Administration has a
13 negative \$519,316.

14 MR. SMEGAL: \$529?

15 MR. RICHARDSON: Yes. That's attributed to the RIF
16 cost from last year. Then there was \$219,050 that was from
17 field carryover. If you recall, last year we reprogrammed
18 the \$158,000 from grant recoveries last year into that line.
19 There was an additional \$60,000 that was unallocated during
20 the year, so that's how the total is made up.

21 Within the next line, we have the designated fund
22 balance. There's \$181,952. This money is derived from the

1 other support category -- \$58,329 that's made up of the
2 national support, which was \$38,891, and the state support,
3 which is \$19,438 -- and the Board initiatives money,
4 competition initiative money that was granted to us in 1992
5 that was remaining, \$123,623.

6 In this proposal, we are asking that this money be
7 reprogrammed to offset the fund balance reduction, and we're
8 reducing it down to, basically, the \$128,000 that is
9 footnoted there, and that money would be subtracted from the
10 interest and grant recoveries, the other funds available
11 during this year.

12 MS. BERGMARK: Could I just add a footnote to that,
13 which is that, in the conference report to 3019, there is a
14 reference to \$400,000 in funds available. That \$400,000
15 consists of the \$219,000 in basic field carryover plus the
16 \$181,000 in designated fund balance. That comes to about
17 \$400,000, and we're proposing that that \$400,000 be used to
18 partly offset our \$530,000 deficit in M&A. Is that correct,
19 David?

20 MR. RICHARDSON: That's correct. Of the other
21 funds available, there's a further breakdown on that first
22 page that shows that we anticipate \$375,000 in other funds.

1 We are allocating the \$304,000 to Management and
2 Administration and the \$128,000 to basically liquidate the
3 Fiscal Year 95 deficit. So this would give us a budget
4 during the year of \$279,392,506.

5 There is an additional caption at the bottom, which
6 is \$71,000 in funds that have not been included in the
7 budget. We do anticipate some extraordinary expenses when it
8 does come to the subleasing of the space.

9 We do have one group that is currently looking at
10 the prospect of subleasing approximately 8,000 square feet of
11 space. To do that, they're going to pay us \$16,000 for
12 temporary space while there is some refurbishing of the area
13 that they would sublease from us. This would not be a prime
14 lease. We would be the landlord for this tenant during the
15 remainder of the lease.

16 So we have \$72,000 that is for cost of the
17 commission. There is \$15,000 which would be added to that
18 for the buildout of the space that we are moving to on 10,
19 and then there's a \$16,000 offset for the rent income.
20 That's the reason it's \$71,000.

21 There is no refurbishing of the space, because we,
22 in the negotiations, are looking to provide them four months'

1 free rent. They will pay for the total refurbishing of the
2 area, so there's no immediate cost that would come out for
3 the Corporation. We felt that this was the better way of
4 going because of the shortfall in the months ahead.

5 MR. SMEGAL: What's the remaining length of the
6 lease?

7 MR. RICHARDSON: Until May 31, 2002.

8 MR. SMEGAL: Six years.

9 MR. RICHARDSON: Six years.

10 MR. SMEGAL: Four months' free rent and six years?

11 MR. RICHARDSON: Right.

12 MR. SMEGAL: I'm sorry. Go ahead.

13 MR. RICHARDSON: I was just going to say that, when
14 we look at the lease, it would be set up for the five years
15 and 11 months, through the remainder of the lease with this
16 group.

17 There will be another presentation tomorrow, but
18 there's three other groups that are looking at space on the
19 11th floor. There is no cost in this particular budget for
20 them, so if there is some extraordinary cost due to the
21 leasing there could actually be a deficit that would roll
22 forward into 1997. That would be for the commission that was

1 due real estate brokers for leasing the space and any
2 buildout that we may have to foot during this period.

3 MR. SMEGAL: And you don't see that being offset
4 short-term by income?

5 MR. RICHARDSON: No, sir. For instance, if we
6 would sign a lease right now, there would be buildout and
7 free rent. The one unit that is looking to come in here is
8 the National Association of Attorney Generals. They would
9 not really occupy the space until January 1. Before that
10 time, we would have to pay for the refurbishing, and then
11 we'll have to see what type of concessions we may have to
12 give up to get them in the space.

13 There is one thing of note here, and that is that
14 we were working with the broker and the owner of the
15 building, which is the American Psychological Association and
16 Trammell, Crow. They're in joint ownership of this building.

17 That would possibly be a 10-year lease. It would
18 be a prime lease, so we would not be a landlord on that, but
19 yet there would be some offsets that would help us. We'll
20 just have to work that out as best we can at this point.

21 The other units that we have coming in are a
22 housing group -- that would also be a prime lease -- and

1 NAPOL, which is subleasing space on the 10th floor at this
2 time. We had originally thought it would be a prime lease,
3 but we're looking at that a little bit further. We're not
4 sure how that will go forth at this time.

5 APA is also looking at some space. That would be a
6 prime lease also, where they will take us completely off the
7 lease for them to move into some of the space.

8 MR. SMEGAL: Then the broker gets their commission
9 up front?

10 MR. RICHARDSON: Half of it on the execution of the
11 lease and then the remaining half after the tenant moves in.

12 MS. BERGMARK: Actually, I would say we're quite
13 encouraged at this moment about the level of interest in our
14 space. We're anxious to reduce our lease obligation as
15 quickly as possible, and things have really been moving. I
16 think the two of you missed it. We have up in the conference
17 room floor plans to give an indication of whose interested in
18 what.

19 MR. SMEGAL: I saw the architectural plans.

20 MS. BERGMARK: But we're pleased we're moving as
21 quickly as we are. Our early projections were that we might
22 not even, by January of this coming year, be sufficiently

1 reduced to help us out for '97, but things are looking a
2 little better than that right now.

3 MR. SMEGAL: Good. Let's see, do we need a motion
4 to reprogram \$219,050?

5 CHAIR MERCADO: I would think that we do.

6 MR. SMEGAL: Do we have to reprogram it all, or
7 just reprogram the \$219,050?

8 MR. RICHARDSON: All of it.

9 MS. BERGMARK: It's all of it.

10 CHAIR MERCADO: Well, is all of it going to be the
11 \$529,000?

12 MR. RICHARDSON: It's \$219,050 and the \$181,952.
13 That's the two amounts.

14 MR. SMEGAL: That's \$400,002.

15 MS. BERGMARK: I don't know that you would need a
16 separate motion. Once you hear all about the entire COB, I
17 think in the adoption of the COB, if you just note --

18 CHAIR MERCADO: Include.

19 MS. BERGMARK: -- that that includes reprogramming
20 for that.

21 CHAIR MERCADO: That's fine.

22 MR. RICHARDSON: Of course, I'll just note here for

1 the record, as you look on attachment B, you'll see the
2 proposed budget for \$279,392,506, and the expenses that we
3 have to date -- March expenses -- and you'll see that we are
4 substantially below the proposed budget in any of our
5 spending.

6 Of course, the main thing of note in this is the
7 basic field, and we have that under the Delivery of Legal
8 Assistance, \$270,616,820. Then, under Management and
9 Administration -- which will be the next area we discuss --
10 we have two categories. We have Management and
11 Administration, which has a budget proposed of \$7,275,686,
12 and then the Inspector General, which is \$1,500,000.

13 If I can, let me direct your attention to
14 attachment C.

15 CHAIR MERCADO: And we have the amended
16 attachment C, don't we?

17 MR. RICHARDSON: That's correct.

18 MR. EAKLEY: Everybody else is finished.

19 CHAIR MERCADO: Well, we were kept in the other
20 committees all afternoon.

21 MR. EAKLEY: If you don't need a quorum, I'll sneak
22 out.

1 MR. RICHARDSON: We're fine.

2 CHAIR MERCADO: Go. We have quorum.

3 MR. SMEGAL: We have a quorum.

4 CHAIR MERCADO: You may leave, Mr. Chairman.

5 MR. EAKLEY: See you in a little while.

6 MR. RICHARDSON: What I'm going to do is flip sort
7 of back and forth a little bit just so that I can review the
8 expenses with you and come forward with the budget. So I'm
9 going to be looking at D and C together.

10 CHAIR MERCADO: Oh, D and C together?

11 MR. RICHARDSON: Right. For instance, for the
12 Board of Directors for the period through March, we have
13 paid, for the three meetings, \$44,000 for, basically, your
14 consulting and travel, the other little miscellaneous
15 expenses that go along with the Board meetings.

16 We have proposed, of course, three additional
17 meetings. Also, we found out last week, it appears we're not
18 going to have the Senate hearing, but this does include money
19 for the hearing. It also includes money for the
20 authorization hearings.

21 MR. SMEGAL: Did we hear there is going to be no
22 reauthorization also?

1 MR. RICHARDSON: I have not heard at this date any
2 news on that, but we have provided money in this budget for
3 those hearings if they will take place.

4 We have budgeted a July meeting, and we have also
5 included one additional meeting for Ops and Regs and possibly
6 a Finance Committee meeting sometime in August or September
7 because of the need to develop their budget mark for FY 98 by
8 October 15th. That will also give the Ops and Regs an
9 opportunity to review some of the regs that they need to be
10 on the fast track to do.

11 CHAIR MERCADO: And we have a full Board meeting --
12 October or November?

13 MR. RICHARDSON: October 4th and 5th.

14 CHAIR MERCADO: We may actually be able to have
15 them both together somehow.

16 MR. SMEGAL: We're also meeting in July.

17 MR. RICHARDSON: Within the Executive Office, we
18 have spent to date \$340,000 -- almost \$341,000. We have
19 budgeted \$724,250. This will support nine staff members, and
20 there is a limited amount there dealing with additional
21 travel.

22 So far there has been an amount of \$3,500 expended,

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1 and there is a total \$18,000-that is budgeted. There's a
2 number of directors' meetings that Ms. Bergmark, the
3 executive vice president, and Alex will be attending. This
4 should cover those expenses.

5 CHAIR MERCADO: From FY 95, how many folks do we
6 have in the Executive Committee?

7 MR. SMEGAL: Executive Office.

8 CHAIR MERCADO: In the Executive Office.

9 MR. SMEGAL: Nine. There are spots for nine. Do
10 we have nine?

11 MR. RICHARDSON: In FY 96.

12 CHAIR MERCADO: In FY 95.

13 MR. RICHARDSON: In FY 95 there were 15.

14 CHAIR MERCADO: I thought it was almost a half.

15 MR. RICHARDSON: There has been a reorganization,
16 and that, of course, with the downsizing we have lost some
17 people. Then we've transferred with the reorganization in
18 the communications element into the Information Services. So
19 we feel that the nine, at this point, should be sufficient to
20 give us the time to cover the --

21 MS. BERGMARK: Under the circumstances, this is the
22 best we can do.

1 CHAIR MERCADO: Many of you are working 60 or 80
2 hours a week; right?

3 MR. RICHARDSON: Yes.

4 CHAIR MERCADO: I'm sorry, go ahead.

5 MR. RICHARDSON: Within the General Counsel, we
6 have spent to date \$195,000, basically. We have budgeted
7 \$428,000. This has four staff members in it at this point.

8 The big item here, other than salary, is your
9 consulting, which would pay for your attorneys' fees. We've
10 spent \$13,780, and we looked, because of the litigation that
11 we have going on at this point, at \$59,000 for the year. So
12 there's an additional \$45,000 for the remainder of the year.

13 MR. SMEGAL: Haven't we retained -- if that's the
14 right word -- for Wilkinson, \$300,000 or something sitting
15 over --

16 MR. RICHARDSON: Yes, and we may get some of that
17 back.

18 MR. SMEGAL: What are the plans about that? That
19 isn't reflected in here.

20 MR. RICHARDSON: It's not included at this point
21 because we don't know --

22 CHAIR MERCADO: It was in last year's budget.

1 MR. RICHARDSON: We have totally paid \$300,000 in
2 last year's budget.

3 MR. SMEGAL: It's in an escrow account with the
4 court.

5 MR. RICHARDSON: It's in an escrow account, so
6 we're going to earn some interest on that and so forth. But
7 we don't know when we're going to get the money back, because
8 there have been some appeals made on that.

9 CHAIR MERCADO: Okay.

10 MR. RICHARDSON: Within the Office of
11 Administration and EO, we have spent to date almost
12 \$1,218,000, and we have a budget of \$2,515,000. This will
13 support 10 staff members.

14 MR. SMEGAL: Are there 10 staff there?

15 MR. RICHARDSON: Yes, there are. There are nine at
16 this time. We hope to have one additional benefits person in
17 the next few weeks. The major expense at this point, when we
18 look at the \$28,000 for the temporary employee, is the amount
19 for the benefits person.

20 In addition to that, for the consulting we have
21 some money that has been set aside for the outplacement of
22 people who, at the end of last year, not all of their money

1 has been used to date. We've also budgeted amounts in there
2 of about \$15,000 for moving, consolidating on the 10th floor,
3 so there's some cost in there for that, also.

4 Communications -- through the first six months we
5 have spent \$37,000. We anticipate \$77,000 for the year.
6 Occupancy costs, we've spent about \$793,000 through the six
7 months. There is an increase that has to go into effect
8 June 1st, so we anticipate costs for the remainder of the
9 \$1,638,000.

10 As you see, reproduction -- we've got \$30,000 first
11 quarter and \$35,000 we're projecting for the last quarter.
12 That's because of the RFP's that we have to produce and
13 submit to the field and the support of the program services
14 in the competition initiative.

15 In other operating, we spent \$108,000 the first
16 half of the year, another basically \$62,000 the remainder of
17 the year. The reason that's so top-heavy is we pay our
18 insurance costs in October and November. That amounted to
19 about \$70,000, so we don't have those costs for the remainder
20 of the year.

21 Within the Office of the Comptroller, we have spent
22 \$175,000 the first six months, and we anticipate the next six

1 months a total budget for the year of \$382,000. So it's up
2 about \$30,000.

3 One of the increases that we're looking at there
4 is, in the first quarter, we spent basically \$7,500 on other
5 operating. That includes our bank service charges, and we
6 anticipate that going to right at \$19,000, because we
7 implemented, at the end of last year, direct deposits for our
8 grantees, and it does cost a little bit for us to direct
9 deposit their checks in their account.

10 We've not done it during this year from January
11 forward because of the uncertainty in funding and the
12 changing of the monthly grants. Now, at this point, they
13 should be somewhat routinized where we can go ahead with the
14 direct deposits beginning July 1st.

15 Program Services, the first six months, spent
16 \$1,131,000. This is the combination of the OPEAR-OPS. In
17 the last reporting, this was titled the competition and
18 enforcement.

19 MR. SMEGAL: We're also changing it from program
20 services to program operations? You changed the name of it,
21 too?

22 MR. RICHARDSON: Right.

1 MR. SMEGAL: How many in the Comptroller's Office?

2 MR. RICHARDSON: I'm sorry, there are six.

3 MR. SMEGAL: Six of you?

4 MR. RICHARDSON: Yes.

5 MR. SMEGAL: So program operations is the correct
6 reference term. All right. How many there?

7 MR. RICHARDSON: Thirty-five.

8 MR. SMEGAL: Thirty-five?

9 MR. RICHARDSON: Of course, the major amount of
10 expenses you'll see there is there has been very little
11 consulting -- \$2,000 for the first six months -- and we look
12 to have another \$100,000 during the remainder of the year.
13 When Merceria was giving her presentation, this is what she
14 was discussing about the readers, people reviewing the grant
15 proposals and providing moneys for that technical assistance.

16 Within the traveling, you will see that there has
17 been \$35,000, almost \$36,000, for the year, and there is
18 \$175,000 total. This is where they were going out and doing
19 the program assessments, trying to help people become more
20 aware of the need for pushing the competition and making sure
21 that the people are on level playing grounds when they do
22 submit their bids.

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1 And then the last area of note within the program
2 services is \$8,000 spent for the other operating, and we were
3 proposing \$110,000. The main area here is about \$100,000 for
4 advertising to get the word out about the availability of
5 funds. These are projections.

6 I should note, we will review these again at the
7 end of nine months so that, when we do get together again,
8 we'll have a little better feel once we go and start some
9 advertising and hope we can be able to save some money in
10 some of these areas to help with the needs for the buildout
11 and offset some of those costs.

12 CHAIR MERCADO: Especially since part of the plan
13 is to do more advertising to get a broader reach and cross-
14 section of possible applicants in the competitive process;
15 right?

16 MR. RICHARDSON: Yes. Of course, last time it was
17 done with letters to programs. We went to bar associations
18 to try to get a number of free advertising. There was a
19 limited amount of paid advertising. The \$8,000 encompasses
20 what was done. So what we're going to do is, there will be
21 some newspaper advertising, additional bar journals, more
22 letters generated. So there will be a broader range brought

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1 into the competition.

2 The two -- and I apologize. The information
3 technology and program services are reversed in the two
4 presentations, so I'll look at the information services now,
5 or information technology. The first six months, they've
6 spent \$138,000, and proposed for the year is \$412,000. The
7 main area here that will be increased is, the first quarter
8 there was \$2,500 spent in consulting.

9 This particular proposal shows that there will be
10 another \$70,000. This is moving toward our aim of increasing
11 our efficiency through technology, and they'll be bringing in
12 someone to help with the programming so that we'll connect
13 with the inspector general. They're also in an information
14 technology mode, and they're increasing the technology in
15 their area and hoping that the two will be able to interface
16 without any problem.

17 CHAIR MERCADO: Now, when we look at the
18 information technology and the interfacing of the inspector
19 general -- correct me if I'm wrong on this -- and, of course,
20 the inspector general can probably tell me this -- but the
21 expenses in the budget -- I mean one area that we talked
22 about was looking at office space and all that, whether it

1 gets allocated, since we now have two different lines.

2 I don't know what your current budget looks like,
3 but in prior budgets that you had, office space, printing,
4 equipment, computers, technology -- all of that came under
5 the M&A line and not under inspector general line; is that
6 correct?

7 MR. RICHARDSON: That's correct.

8 MR. SMEGAL: Most of it.

9 CHAIR MERCADO: Okay. So when we're looking at
10 this figure right here under information technology and in
11 doing all this technological stuff, that is still anticipated
12 that the bulk of those expenses are going to be under the M&A
13 line; is that correct?

14 MR. RICHARDSON: Well, I think there's two
15 initiatives underway. One is being done on the management
16 side, and the other is being done on the inspector general's
17 side -- and he is certainly more able to speak to this than I
18 am -- but where they are having their consultant come in and
19 program how they're going to enter the data from the audits
20 and create their exception reports and be able to give
21 management different information that they need throughout
22 the reporting cycle.

1 Ed, do you want to---

2 MR. QUATREVAUX: No, that's fine. That's a good
3 explanation.

4 MR. RICHARDSON: And we likewise are looking at
5 workforce analysis, case service reports, and the different
6 initiatives that we need to be able to meet our reporting
7 needs to the Congress and those on the outside who need
8 information from us.

9 We have, for a long time, produced a fact book, but
10 that fact book, generating a great deal of information, was
11 put into databases and manipulated. There was a great deal
12 of work effort going into it. What we're trying to do now is
13 to arrange it where there will be files that will be sent in
14 from the field offices where they'll be uploaded in the
15 computer to be able to reduce considerably the amount of
16 rekeying of information.

17 I think we've been very successful with that in the
18 first six months of this year in getting FY 95 data and FY 96
19 data through the refunding so that there has been minimal
20 reentry of information, and we've been able to respond to
21 some information requests much quicker.

22 Basically, you're going to be looking at two totals

1 here. Management and administration expenses through the
2 first six months totaled \$3,242,000, and the revised M&A
3 budget that we're looking at is \$7,275,000.

4 The last two items -- the inspector general is one.
5 The first six months, the inspector general spent \$512,000.
6 In the budget, of course, in 3019, Congress allocated
7 \$1.5 million to the inspector general. So that would give us
8 a total spent for the first six months of \$3,754,000, whereas
9 the budget for the two combined offices is \$8,775,000.

10 CHAIR MERCADO: Going to the particular line in the
11 inspector general -- and I don't know whether you have the
12 figures or not. I don't have them, but I'm just going on the
13 attachment C replacement.

14 MR. RICHARDSON: Mm-hmm.

15 CHAIR MERCADO: On the consulting line, we have
16 \$26,070 that has been spent through March 31st of 1996, but
17 we have a proposed M&A budget of \$293,000. What is going to
18 happen between the balance of this FY 96 that would expend
19 the greater amount of money?

20 MR. QUATREVAUX: Well, I think I should answer
21 that.

22 CHAIR MERCADO: Yes, that's what I say. I don't

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1 know who can. Whoever can answer that.

2 MR. QUATREVAUX: If you don't mind, I'll just leave
3 my chair right here.

4 CHAIR MERCADO: Sure, that's fine. We don't have
5 any tables here.

6 REPORT OF EDOUARD L. QUATREVAUX, INSPECTOR GENERAL

7 MR. QUATREVAUX: The answer to that particular
8 question --

9 MR. RICHARDSON: Excuse me, Ed, would you give your
10 name for the record.

11 MR. QUATREVAUX: Ed Quatrevaux. Thanks for
12 reminding me.

13 We have, as you pointed out correctly, expended
14 some \$26,000 or so that was related to the Corporation's
15 annual audit. Already there are three remaining items in
16 there.

17 One is audit information management system, and
18 this is for the software development. I would rather not
19 talk to that number, because we're still negotiating
20 contract. But we don't expect it to exceed that, I think is
21 the best way to put it.

22 CHAIR MERCADO: You don't expect it to exceed

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1 \$270,000?

2 MR. QUATREVAUX: No, the audit information
3 management system -- do you have the detail?

4 CHAIR MERCADO: No, I don't.

5 MR. QUATREVAUX: Well, the \$267,000 is for three
6 different entries. Let me talk to each one of them. I may
7 as well go ahead and use the number.

8 The audit information management systems software
9 development, we have put a number of \$50,000 against that,
10 but this is not a fixed-fee sort of contract. It's time and
11 material, so we won't have the final answer until we're
12 considerably down the line. We don't anticipate it to exceed
13 that, however.

14 There is also, in a category called other
15 consulting, \$117,000. That's essentially a contingency
16 reserve against the kinds of things we talked about before
17 the Provisions Committee, that we're really not sure what's
18 going to take place yet. We're still working that out.

19 That is a reserve to be able to hire contractors to
20 do some of that work and also provides the wherewithal if we
21 find it necessary to reprogram into travel or whatever to do
22 the work if we decide to do it in-house.

1 One item which, again, is in the nature of a
2 reserve -- and I say that because we intend to publish a
3 report in June and brief the Board in July -- but, basically,
4 we have finished this first phase, or are in the process of
5 finishing the first phase of our review of the potential
6 information technology to leverage existing sources.

7 We determined that we can't do it all without
8 some more finite testing. What we have in mind is a
9 proof-of-concept demonstration. The particulars of that are
10 yet to be determined, and I would expect to lay out options
11 and discuss them with management, as well as lay them out for
12 the Board in July.

13 CHAIR MERCADO: So are we saying that --

14 MR. QUATREVAUX: To answer your question --

15 CHAIR MERCADO: So would there be \$100,000 left for
16 that?

17 MR. QUATREVAUX: Well, more or less. The precise
18 number is unknown.

19 CHAIR MERCADO: No, I'm just adding your \$50,000
20 and your \$117,000.

21 MR. QUATREVAUX: Right. That's right.

22 CHAIR MERCADO: So it would be \$100,000 left for

1 this category.

2 MR. QUATREVAUX: That's correct. And that we would
3 expect to obligate before the end of the Fiscal Year. The
4 audit information management system would be obligated before
5 the end of the Fiscal Year. But, as I've described, the
6 other \$117,000 -- other consulting -- is essentially a
7 contingency reserve for the kinds of activities we talked
8 about before the Provisions Committee, yet to be defined.

9 CHAIR MERCADO: Okay. I guess I need to go back
10 up, because I'm not sure, on the personnel compensation --
11 and I don't have the figures here from FY 96 -- we were
12 asking Mr. Richardson, of the different categories, how many
13 staff he had now and, I guess, sort of what he had last year.
14 We're trying to look at whether or not, I guess, we can
15 comply with the requirements, the work and functions that
16 we're being asked to do by Congress.

17 On your personnel budget for FY 96, what is the
18 total number of employees that you foresee that it would
19 carry?

20 MR. QUATREVAUX: The figure you have for the next
21 six months, which should be \$471,000 -- or if you want to
22 make it total compensation, including the benefits, which are

1 another -- that's the way you're doing it, Dave?

2 MR. RICHARDSON: Yes.

3 CHAIR MERCADO: I think we have a yearly of
4 \$1,044,000.

5 MR. QUATREVAUX: \$1,044,000. That's correct.

6 CHAIR MERCADO: So what does that translate to in
7 the number of personnel?

8 MR. QUATREVAUX: I'll have you that answer. It's a
9 two-part answer.

10 CHAIR MERCADO: Oh, okay.

11 MR. QUATREVAUX: There are 17 entries in the budget
12 that contributed to that \$1,044,000 -- at least for the
13 second half of the year. Two of those positions, though,
14 involved employees who were detailed to the OIG at our
15 request by the Corporation for whom the decision has not yet
16 been made -- it will be made by the end of this month --
17 whether or not to take those employees on as OIG employees.

18 CHAIR MERCADO: And how does this number compare
19 with the number of employees you had for FY 95?

20 MR. QUATREVAUX: I believe -- if we use 17 as the
21 point of reference -- David, help me. It was 14, wasn't it
22 -- or 15?

1 MR. RICHARDSON: I think it was 13, wasn't it?

2 MR. QUATREVAUX: Thirteen? Well, we had a debate
3 one day over how many, and we had left out one.

4 MR. RICHARDSON: Fourteen, with one left out.

5 MR. QUATREVAUX: So I suppose it's a net increase
6 of three at this point.

7 MR. SMEGAL: With the prospect of their being
8 several more? Two more or three more?

9 MR. QUATREVAUX: It's possible. I don't know.
10 Have not made -- yeah, you're right. The 17 includes the two
11 detailed employees. I was dealing with 14 to 15 right now.
12 If those two were included, it would be 17, and there's a
13 possibility of two more.

14 MR. SMEGAL: Actually, there's 20 on your position
15 list.

16 MR. QUATREVAUX: I think some of those have zeros
17 against them. In this particular iteration we are looking at
18 the next six months, and again --

19 MR. SMEGAL: Oh, you're right. There are three
20 zeros.

21 MR. QUATREVAUX: Yes, there are some zeros in there
22 that represent positions that we have filled in the past, or

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1 were or are contemplating, but didn't put money against it in
2 this budget because the decision has not been made.

3 CHAIR MERCADO: Yes, because there would be 20, and
4 then, if you minus the zeros out, there would be 17.

5 MR. RICHARDSON: And, if I could, we have been
6 reporting regular employees and the temporary employees, and
7 there's an additional amount for \$60,000 temporary?

8 MR. QUATREVAUX: Yes. I have also set aside --
9 actually, it's \$45,000 for professional temporary services,
10 split about evenly between auditors and information systems
11 analysts. We have a former employee of the Corporation who
12 is working as a contract employee in the OIG. It doesn't
13 show up in this personnel line, but it shows up in the temps
14 area, and that's what that represents.

15 CHAIR MERCADO: Yes, because we have one audit, two
16 systems analysis. Or is that the number of category? Okay,
17 that's the number of the category. One, two, three, four is
18 the number of the category; right? So that's not the number
19 of individuals. So, audit, you have \$20,000; systems
20 analysis, \$25,000.

21 MR. QUATREVAUX: Correct.

22 CHAIR MERCADO: Clerical, \$4,000. So those are

1 just part-time for what, a couple of months? Or are they on
2 a part-time basis, hourly? What?

3 MR. QUATREVAUX: The \$20,000 for the auditors is a
4 sum we expect to use at least one, maybe two, maybe more --
5 we'll see -- auditors on a temporary basis to do work for us,
6 but not extending for the remainder of the year. So it may
7 be one person for a longer period of time, or two people for
8 a shorter period. We don't know yet. We don't know. It's
9 really going to depend on how fast they work.

10 CHAIR MERCADO: And then the systems analysis.

11 MR. QUATREVAUX: The systems analysis is the person
12 that I referred to as a contract employee right now, a former
13 employee of the Corporation -- who, I might add, took a
14 Phase I separation.

15 CHAIR MERCADO: Oh, okay. This is the temp
16 category. So this wouldn't go in the category of -- let me
17 see -- you're talking about the audit systems software
18 analysis. That's something totally different; right?

19 MR. QUATREVAUX: That's right, although it's
20 related to it. It's that kind of work, and it's supporting
21 it. It's just not the actual programming of it. This
22 individual has helped us in the preliminary design and

1 formulation of the request for procurement and does a lot of
2 other things, as well -- troubleshooting, hookups.

3 CHAIR MERCADO: So the \$50,000 that we're talking
4 about in the category of consulting, is that for the
5 actual --

6 MR. QUATREVAUX: That is to an outside firm.

7 CHAIR MERCADO: Outside firm. Okay, let's see.
8 You anticipate that the bulk of this consulting money is
9 going to be spent by the end of the year?

10 MR. QUATREVAUX: I would say, with respect to the
11 audit information management system, yes. With respect to
12 the item that's labeled, "Increasing the delivery of legal
13 services through technology," I would expect yes. As to the
14 other consulting, \$117,000, I don't know, but I kind of doubt
15 it. It's hard to say.

16 CHAIR MERCADO: Okay. And then, just going down on
17 the items that we have on this attachment C, if we look at
18 travel, we have \$51,000 projected for the year, and so far
19 we've expended \$7,000. That would be increasing, I guess,
20 almost seven times the cost, assuming at the end of the year.
21 Do you anticipate there's going to be a whole lot more
22 travel?

1 MR. QUATREVAUX: We do expect a lot of travel.
2 Whether it will consume that amount or not, I'm not sure. I
3 don't think it will, probably.

4 What I need to say to you here is that, under the
5 continuing resolution, we took a very conservative approach,
6 operated at a very low level of operations, canceled the
7 quality assurance reviews, and thus we didn't spend the
8 travel money.

9 So the \$7,000 for the first half of the year is not
10 at all representative. In fact, we've pulled money out of
11 travel and put it into the other areas in this mid-year
12 allocation. I think that we're going to -- and this is more
13 for FY 97 than FY 96 -- but I think we're going to be
14 spending a lot of money on travel.

15 CHAIR MERCADO: We have categories -- and I guess
16 this is part of what we were trying to figure out, what
17 actually went to the administration/human resources line. On
18 this budget we have costs for communications, occupancy,
19 printing and reproduction. Are these in addition to what
20 administration and human services pays, or are they for
21 something else?

22 MR. QUATREVAUX: Well, we sort of got a

1 combination. I have no doubt -- well, I think Communications
2 is probably a good example. David tells me that
3 Communications charges us for only the long distance calls
4 that we make on travel, whereas, of course, we spend other
5 than that. So it's handled both ways, is the answer. Some
6 portion of it David pays for. Other portions he allocates
7 against our budget or charges off against our budget.

8 This may or may not be a particularly good time to
9 bring it up, but it's related. We did, after passage of this
10 appropriation, make contact with other OIG's to ask, "Just
11 how do you do this?" Because the IG Act says what it says
12 about the entity providing space, supplies, et cetera, et
13 cetera.

14 What we found is that, although there are some
15 variations, they usually pick the same things, a few small
16 items that are really the large discretionary items that are
17 handled through our budget process, and everything else gets
18 swept under the general umbrella.

19 Those big things are personnel, travel, consulting,
20 and, in one case, equipment, which makes a lot of sense. If
21 I see the need to buy a \$20,000 piece of equipment, then I
22 should put it in the budget and not expect the Corporation to

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1 pay for it.

2 I had planned eventually, when things quiet -- and
3 I'm not sure when that will be -- to get with David and see
4 if we might want to simplify what we're doing.

5 CHAIR MERCADO: Well, part of what, I guess, we're
6 trying to look at -- and I know we've discussed this in other
7 Finance Committee meetings. I know John Broderick had
8 requested, whenever budgets were submitted, to sort of
9 allocate the costs that the different divisions used in
10 occupancy costs or printing or communications or what have
11 you, to get a sense of what the expenditures were, and that
12 included the inspector general. But it was only for the
13 sense of letting us know, not necessarily that it was
14 allocated to that budget.

15 The problem that we have now -- and I'm not quite
16 sure how we deal with this -- is that we now have a line item
17 from Congress for the inspector general for their budget.
18 Does that mean that in that budget is included what would be
19 your overhead?

20 You know, if you are office Y, and we give you X
21 amount of dollars, then does Congress mean that, out of those
22 X amount of dollars, you pay for your overhead, whatever that

1 happens to be and wherever it happens to be located, since
2 you are a different line item? You know, just like the
3 grantees have those different line items, and they pay for
4 their overhead, we're not expected to pay for any of that
5 expenditure. And so I'm not real clear.

6 I must say that I have not had the opportunity to
7 discuss with either management or yourselves where we fall in
8 that line, because that would affect the numbers that we're
9 looking at here, I think, as far as those overhead
10 expenditures are concerned.

11 MR. QUATREVAUX: Well, I'm not sure what this
12 Congress did or why it did it, but what I was saying, in the
13 wider community, the approach is the OIG appropriation covers
14 personnel. It covers the major categories, and particular
15 emphasis is on discretionary.

16 That's a good point you make about John Broderick's
17 observations in the past. That's good cost accounting
18 information. It's not particularly useful for budgeting,
19 because for budgets what you need to focus on is what's
20 discretionary, and within limit is something like occupancy,
21 it's not going to change too much. There's not a whole lot
22 of discretion on my part there.

1 I would say that if we want to do that, then we
2 have to reexamine the way we put the budget together, and it
3 would have to be a line in there for that kind of thing. But
4 I think the answer is, for the other OIG's with separate
5 lines of separate appropriations, they do not include the
6 cost of the office space that they get from their entity.

7 MR. SMEGAL: David, just so we can have an idea
8 what that is, you might just give us some rough estimate at
9 some point what that number would be, where it could be
10 broken out of here.

11 MR. RICHARDSON: All right, sir.

12 MR. QUATREVAUX: There are a variety of ways to do
13 that.

14 MR. SMEGAL: Oh, I'm sure there are.

15 MR. QUATREVAUX: I think square footage is the
16 most --

17 MR. SMEGAL: Square footage is probably the
18 simplest way.

19 MR. QUATREVAUX: Yes.

20 CHAIR MERCADO: Yes. But when we look it over -- I
21 mean looking at communications, equipment, printing, all
22 those kinds of costs -- and the only reason that I bring

1 that up is because, in this budget that we have -- the
2 attachment C, the replacement one -- it does have items
3 categorized for items that heretofore had 0 allocation. So
4 that's why I wasn't sure whether this meant that you are now
5 picking those up.

6 MR. QUATREVAUX: Oh, okay.

7 CHAIR MERCADO: You know what I'm saying?

8 MR. QUATREVAUX: Yes. What I should have told you
9 is -- for example, you see \$1,000 in occupancy costs.

10 CHAIR MERCADO: Yes.

11 MR. QUATREVAUX: That has always been used to put
12 aside a little something to pay for if we have to rent like a
13 hotel conference room or something while on the road.

14 CHAIR MERCADO: Oh, okay.

15 MR. QUATREVAUX: It's just a contingency.

16 CHAIR MERCADO: Okay. So this is for outside
17 stuff.

18 MR. QUATREVAUX: I'm sorry, I should have mentioned
19 that.

20 CHAIR MERCADO: Okay.

21 MR. RICHARDSON: And Ed did mention that, if he
22 deems it necessary to buy a piece of equipment, he feels he

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1 should budget for it. You'll see that there is a \$20,000
2 expenditure in there for additional computer needs.

3 CHAIR MERCADO: Yes, because I was getting to those
4 items. Since I had seen 0 before in those categories, I
5 thought, well, are they now picking up, you know, the
6 equipment categories? Because before they were under the
7 administration and human resources line.

8 MR. RICHARDSON: Right.

9 CHAIR MERCADO: \$20,000 is computer; \$26,000, other
10 operating expenses. I'm not sure what -- what is the other
11 operating expenses?

12 MR. QUATREVAUX: It's primarily training, the cost
13 of training. We have a requirement for the auditors of 80
14 hours continuing professional education every two years. We
15 adopt that same level for the rest of the personnel, as well.

16 Now, there is in here, I think, something that
17 probably will disappear. It sums to about \$2,000, but it's
18 fees to various organizations.

19 MS. BERGMARK: It's dues.

20 CHAIR MERCADO: Oh, the dues.

21 MR. QUATREVAUX: I see state bar dues in here, so
22 we're going to have to --

1 CHAIR MERCADO: I guess Congress has a rider on
2 there.

3 MR. QUATREVAUX: Yes. With Vic's help, we're going
4 to have to figure out what we can pay and what we can't and
5 adjust accordingly.

6 CHAIR MERCADO: Okay.

7 MR. QUATREVAUX: But the big item in that is the
8 \$12,000 under mandatory continuing education.

9 CHAIR MERCADO: Do you have any other question
10 about this?

11 MR. SMEGAL: No, the only question I had is, there
12 is an attachment E and an attachment E replacement. Why did
13 you put the attachment E in here, David?

14 MR. RICHARDSON: The reason, the attachment E is
15 the temporary operating authority that we were operating.

16 MR. RICHARDSON: And that shows a budget of \$9.5
17 million.

18 MR. SMEGAL: Oh, right.

19 MR. RICHARDSON: The replacement shows the
20 budget --

21 MR. SMEGAL: The actual budget. Okay. I
22 understand. Thanks. That's all I needed.

1 CHAIR MERCADO: Thank you, Mr. Quatrevaux.

2 MR. QUATREVAUX: Thank you.

3 MR. SMEGAL: Are we at the point of a motion? What
4 do we need now, David? Are we going to approve the COB?

5 MR. RICHARDSON: Yes.

6 MR. SMEGAL: For Fiscal Year 96.

7 CHAIR MERCADO: I think one of the things that made
8 me think -- and you all can correct me if I'm wrong on this
9 -- and that includes the inspector general -- that, based on
10 the briefing that we had earlier this afternoon of the full
11 Board on the consequences or the interpretations of section
12 509 and the whole new Act on responsibilities and Nancy's
13 concern about whether or not there were enough resources to
14 deal with the different functions that may or may not be done
15 by either the M&A line or the inspector general line, that in
16 approving a consolidated operation budget for FY 96, is it
17 possible for us to approve it for a certain length of time --
18 let's say to the next Board meeting?

19 Management and the inspector general and the Board
20 would have had time to maybe review in greater detail where
21 the functions are going to fall and what kind of resources
22 are going to be needed, and then, at that point, permanently

1 accept the COB. We accept it for a two-month expenditure
2 period of time. I mean are we allowed to do that?

3 MR. RICHARDSON: As to your question, I don't think
4 that would be a problem. We are, if you would compare our
5 budget to the amount of expenditures to date, we're well
6 within budget.

7 MR. SMEGAL: It's actually under.

8 CHAIR MERCADO: We're within budget.

9 MR. RICHARDSON: We're well within budget. Even
10 if you divide it by 12 for the next two months, we're still
11 within budget. I don't think that would be necessary.

12 CHAIR MERCADO: And we can always come back with a
13 revised budget if we needed to.

14 MR. RICHARDSON: That's correct.

15 CHAIR MERCADO: Obviously, because of the
16 continuing resolutions, we have done that, as well. I wasn't
17 sure exactly, in process, how we dealt with that, whether we
18 came back with the revised budget or whether we only accepted
19 this for a certain period of time.

20 MR. RICHARDSON: We will have a second cut at this.
21 Fortunately or unfortunately, we have not passed a COB for
22 the year yet, only did the temporary. So now we're looking

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1 at passing a budget, having passed the mid-year review, which
2 we've just gone through.

3 At the end of June, internally, we will review
4 budgets again versus operating experience and come back to
5 the board with any revisions that may be necessary. At that
6 time, your concerns and Nancy's in regards to the operations
7 and the funding for the visits that were contemplated will be
8 built into that budget and a further modification of the
9 budget will take place.

10 CHAIR MERCADO: That's fine. We can go ahead and
11 approve, then, the submitted consolidated operation budget
12 for FY 96.

13 M O T I O N

14 MR. SMEGAL: I'll so move.

15 CHAIR MERCADO: And I assume there's a consensus
16 from the whole committee that we do that.

17 MR. SMEGAL: Yeah, the whole committee.

18 CHAIR MERCADO: We will recommend to the Board, and
19 that includes the request for the reprogramming on the
20 deficit. Okay?

21 MR. SMEGAL: Yeah.

22 CHAIR MERCADO: Well, it's approved. If there is