

ORIGINAL

LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

FINANCE COMMITTEE

OPEN SESSION

Saturday, February 20, 1999

3:35 p.m.

Hibiscus Room
Eden Roc Hotel
4525 Collins Avenue
Miami Beach, Florida 33140

COMMITTEE AND BOARD MEMBERS PRESENT:

Maria Luisa Mercado, Chair
Thomas F. Smegal
Edna Fairbanks-Williams
John T. Broderick
F. William McCalpin
Hulett H. Askew
Douglas S. Eakeley

LSC STAFF PRESENT:

David L. Richardson, Treasurer
Charmaine P. Romear
Leonard J. Koczur
John McKay, President
Jim Hogan, VP for Admin.

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P R O C E E D I N G S

1
2 CHAIR MERCADO: We'll go ahead and get our
3 meeting started for the Finance Committee. An agenda
4 has been presented to all of you. Are there any
5 additions or deletions to the agenda?

M O T I O N

6
7 MR. SMEGAL: I move we approve the agenda as
8 presented.

9 MR. BRODERICK: Second.

10 CHAIR MERCADO: All in favor?

11 (Chorus of ayes.)

12 CHAIR MERCADO: In the minutes of the
13 September 11, '98 meeting, are there any additions or
14 corrections to the minutes?

M O T I O N

15
16 MR. SMEGAL: In that I was there, I would move
17 their approval.

18 MR. BRODERICK: I wasn't there so I will
19 second them.

20 CHAIR MERCADO: We'll just go ahead and
21 approve by consensus, then.

22 CHAIR MERCADO: Item number three is the

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1 office of inspector general's presentation to the
2 Corporation of the FY '93 annual audit. Welcome and if
3 you will, inspector, just introduce your presenters.

4 MR. QUATREVAUX: Presenting the results of the
5 fiscal year '98 corporate audit are Len Koczur, our
6 assistant IG for audit and Charmaine Romear,
7 supervising senior auditor from the office of inspector
8 general. She manages the contract for us and Len of
9 course audited it.

10 CHAIR MERCADO: Okay. You should have
11 received a copy of the audit report. If you don't have
12 one, I do have a couple of extra ones here for any
13 board members that want to look at it. John, do you
14 need one?

15 Okay; go ahead.

16 MR. KOCZUR: In 1998, we had a new auditor,
17 Burt Smith and Company was selected to commit
18 competitive procurement last summer and they performed
19 the audit for the first time this year. We think they
20 did a very good job on it and Charmaine was responsible
21 for the procurement and oversight of the contract and
22 worked with the contractor and Dave Richardson made

1 sure the audit reports came in on time.

2 I'll ask Charmaine to go through the report
3 and present it to you.

4 MS. ROMEAR: I'd like to essentially just run
5 through the report. You'll find some of these are
6 highlights. On the first page of this package, you saw
7 a transmittal from the office of the inspector general
8 which is responsible for point of contact and provides
9 assurance to the board that you can rely on the results
10 of this audit.

11 If you would move to about two pages down you
12 would realize that we have gotten the independent
13 auditor's report on the financial statements. Once
14 again, we got a clean billing, unqualified. In
15 addition to that, as part of the audit and in
16 accordance with government auditing standards, the
17 auditor is required to look at internal controls as
18 well as compliance with laws and regulations that are
19 material to the financial statements. This was done as
20 part of the audit and there were no findings on the
21 internal controls nor in compliance with laws and
22 regulations.

1 The second page of the document is the balance
2 sheet of the corporation. It reflects the assets,
3 liabilities and fund balances. As you would note, the
4 total assets of the Corporation is roughly \$49.3
5 million. The bulk of that is your cash of 48.3 and
6 that is cash that is held in the banks, financial as --
7 excuse me -- financial institutions as well as U.S.
8 Treasury.

9 Moving further down to the middle of the page,
10 the liabilities as of September 30, 1998 total 47.6
11 million. The bulk or majority of this relates to
12 grants and contracts for recipients and that is totaled
13 at roughly 45.6 million, which represents roughly two
14 months of funding for the appropriation for 1998.

15 The one other significant item I would like to
16 bring to your attention is the total fund balance. We
17 had here 1.7 million approximately, I'm rounding for
18 purposes of this meeting. The designated funds balance
19 is roughly 28,000 and as you are aware, that is the
20 amounts that have been designated by the board for
21 specific activities. The undesignated portion totals
22 995,000 and that is available for use at the discretion

1 of the board of directors.

2 On the third page it reflects your statements
3 of revenues, expenses and your changes in fund balances
4 for the year. Of the 285 million that we have recorded
5 supporting revenue, 283 relates to the federal
6 appropriation. Offset against that is a total expenses
7 of 286 million, program activities for grants and
8 contracts we paid out 277 million -- excuse me --
9 expensed 277 million this year. The remainder is for
10 management administration expenditures.

11 MR. SMEGAL: So we always have a carryover.
12 Why is it two months rather than three?

13 MS. ROMEAR: Because we --

14 MR. SMEGAL: The programs are on a calendar
15 and we're fiscal but the difference is three months.
16 Why isn't this three?

17 MS. ROMEAR: Because we fund the 12-month
18 period over shall I say 10 months essentially starting
19 December -- excuse me --

20 MR. RICHARDSON: Two payments in January and
21 you would pay one-twelfth --

22 MR. SMEGAL: Okay; so there --

1 MR. RICHARDSON: -- February and two in
2 November so there's two months left.

3 MR. SMEGAL: All right.

4 MS. ROMEAR: Okay. Going back to page three,
5 we spoke about the carryover amount. At the beginning
6 of the year we had 2.4 million in our fund balance; at
7 the end of the year it was 1.7. The essential
8 reduction was the excess of expenditures this year over
9 revenue and that's essentially covered from the prior
10 year carryover. And those, I would like to add to the
11 record, were for activities that were designated by the
12 board as required.

13 The fourth page reflects your statement of
14 cash flows and essentially it shows the sources and
15 uses of cash and analyzes the changes in your cash
16 balance. There isn't much that can be added to here
17 except to note that at the beginning of the year you
18 had 49 million in cash and at the end of the year you
19 had 48 million which essentially reconciles to what is
20 shown on the balance sheet.

21 Pages 5 through 10 reflect the financial
22 statements and those are essentially explanations that

1 are associated with the financial statements when we
2 adjust them. There has not been any significant change
3 for the prior year on the notes.

4 Last but not least, I would bring your
5 attention to page 11. Members of the committee you may
6 recall in prior years we issued two reports, one
7 separate on the internal controls and the second report
8 on the compliance with rules and regulations. As a
9 result of standards, those have all been combined in
10 one report primarily for (inaudible) and this reflects
11 the auditor's report on the review taking place on
12 compliance with rules and regulations that are material
13 to the financial statement.

14 MR. SMEGAL: I have a couple questions. Note
15 8, return of funds, I can't see where that is -- where
16 that note 8 is on --

17 MS. ROMEAR: It's on page 8.

18 MR. SMEGAL: I've got it there but I'm looking
19 in the pages 3, 4 and 5. I don't see it.

20 MS. ROMEAR: One thing I would say, the
21 amounts are there and it probably should coincide with
22 your management administrative expenses.

1 MR. SMEGAL: The problem I'm having is there
2 are no numbers in note 8 and the reference that this
3 was supposed to make, I can't find it so I don't know
4 what the numbers are.

5 MS. ROMEAR: The numbers associated with note
6 8 is on page 9 at the top of the page. Essentially
7 speaks of the contributions that were made towards the
8 four -- 3(b) plan. And obviously there is not an
9 offset specifically. Those amounts were included in
10 the expenses earlier on page 3, supporting activities,
11 management and administrative activities.

12 MR. SMEGAL: Footnote 9 indicates that we have
13 an adjustment in our rent for Consumer Price Index
14 increases. The numbers that are set forth here are a
15 constant and I guess I am to assume from that that the
16 actual number is something different than the one that
17 is in footnote 9 for '99, 2000, 2001?

18 MR. RICHARDSON: What we have here is the
19 baseline rent and each year as the Consumer Price is
20 increased, this would change. But as of right -- at
21 the end of this financial statement, this is the
22 minimum rental at that point.

1 MR. SMEGAL: So the real one would be
2 something different than this.

3 MR. RICHARDSON: Slightly.

4 MR. SMEGAL: Thank you.

5 CHAIR MERCADO: Does any other member of the
6 committee or the board have other questions?

7 MR. SMEGAL: I have one more. On footnote 9,
8 the litigation, we have one point a deposit of 300,000.
9 It seems we have expended some of that, 81.7. And
10 what's now going to happen to the 219, 218.3?

11 MR. RICHARDSON: Of course we did win the
12 particular litigation you're talking about. The
13 plaintiff had a period of 30 days that he could go back
14 and appeal or refile. That has now run so that
15 particular money, while it's not in this budget, now
16 becomes available for corporate use.

17 MR. SMEGAL: So that we would add that to the
18 carryover in effect?

19 MR. RICHARDSON: That's right.

20 MR. SMEGAL: I mean, it doesn't happen at the
21 end of 9 here --

22 MR. RICHARDSON: It would happen --

1 MR. SMEGAL: So is it 270, 280?

2 MR. RICHARDSON: It's around 240 at this
3 point. There was some --

4 MR. SMEGAL: Some other expenses?

5 MR. RICHARDSON: -- some outside attorney fees
6 that were in there.

7 MR. SMEGAL: Thank you.

8 CHAIR MERCADO: We're missing page 9, the
9 sublease info, we've got a negative on that. Is
10 there --

11 MR. SMEGAL: That's because it's a credit.

12 CHAIR MERCADO: Oh; okay. Never mind.

13 MR. SMEGAL: I have no further questions.

14 CHAIR MERCADO: Any other questions?

15 MS. FAIRBANKS-WILLIAMS: I have one. The
16 money for the computers and things like this, are we
17 buying modern enough computers so we have a password
18 lockdown for confidentiality? Are we putting enough
19 money in there for that kind of thing?

20 MR. RICHARDSON: With the computers that we
21 are purchasing this year that is in our proposed
22 budget, yes, that would cover that. There's a great

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1 many security features built-in; much of the software
2 has security features. Every computer has security
3 features so we're looking about just exactly how much
4 security we will need there.

5 For instance, in the financial area, this new
6 system will allow the directors direct access to
7 looking at the financial data but they will not be able
8 to change it. That's one of the baseline security
9 features we have. So there's gradations of the
10 security of the systems throughout.

11 MS. FAIRBANKS-WILLIAMS: And do you think you
12 have budgeted enough money for these expenses to put
13 everything together?

14 MR. RICHARDSON: Yes, ma'am; we did.

15 MS. FAIRBANKS-WILLIAMS: Okay.

16 CHAIR MERCADO: Any questions from this side
17 of the panel? Okay. Hearing none, I will entertain
18 a --

19 M O T I O N

20 MR. SMEGAL: I move we approve the
21 Corporation's fiscal year '98 annual audit as
22 presented.

1 MR. BRODERICK: I'll second that.

2 CHAIR MERCADO: All in favor?

3 (Chorus of ayes.)

4 CHAIR MERCADO: Thank you.

5 MR. MCKAY: Why don't we accept it?

6 MR. SMEGAL: Accept it? That's better.

7 CHAIR MERCADO: We'll accept it because we
8 can't go back and change it.

9 MR. SMEGAL: I'm sorry. I do have another
10 question. The auditors, were they -- was there a
11 competitive bid for several years or was this a one
12 year --

13 MR. RICHARDSON: It was one year.

14 MR. SMEGAL: Thank you.

15 CHAIR MERCADO: Let's start on the new
16 agenda --

17 MR. MCKAY: Madame Chair, I'm sorry, but would
18 you on the record change that to an accept rather than
19 approve?

20 CHAIR MERCADO: I think we did but just to
21 make sure in clearance that we changed the motion from
22 approve to a motion to accept the audit report.

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1 Item four is the review and adoption of FY '99
2 operating budget for the Corporation and Mr. Richardson
3 is going to present.

4 MR. RICHARDSON: What I'd like to do is sort
5 of redirect you back to the financial statements just
6 for a moment because the financial statements of course
7 tie into the budget planning for the year.

8 CHAIR MERCADO: Out of the audit report; is
9 that what you're saying?

10 MR. RICHARDSON: For the audit. So when you
11 look at that page two, and we will look at the fund
12 balances, you'll see that the designated fund balance
13 is 27,646 and when you looked at page seven, I had
14 placed in your materials a statement of funds
15 available.

16 MR. MCKAY: Back to the materials now.

17 MR. RICHARDSON: Back to the materials and
18 I'll just show the fund balance and then we'll go
19 straight to (inaudible). But what I did want to do is
20 to show you that the information from the audit goes
21 straight into the financial statement so when you look
22 at the analysis of fund balance and you see that there

1 are some totals on the side, and I'll -- it's about the
2 seventh line down, you'll see that the designated fund
3 balance does come over to the total funds that are
4 available.

5 It's in the grant line because these are
6 designated for grant use. And you'll also see that in
7 the undesignated on page two, it's 995,000, you'll see
8 that that tracks over, we've broken it up between
9 undesignated and the grant funds of 177,700, management
10 administration 655,000 and the IG 161,000. So your
11 totals will track right from the financial statement
12 into the total funds available.

13 The other line that you have is the deferred
14 revenue and that is in the current liabilities as
15 \$8,635 and that shows on the second line in the
16 statement of funds available. Basically what we have
17 of course this year is we have -- we are currently
18 operating on a temporary operating budget that was
19 passed in September.

20 We now have the appropriations and the total
21 in the carryover that is shown here in the financial
22 statements so in the appropriations this year there's

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1 \$300 million and that's broken up into the grant funds
2 of 289 million, management administration, 8,985,000
3 and the inspector general, 2,015,000 for that total.

4 Deferred revenue is money for the Court of
5 Veterans Appeals and you'll see that as we go over to
6 the next page is included there. And the fund
7 balances, only up to 994,000. We have set aside some
8 money to go back to the field through grant recoveries.
9 The designated line is 27,000 and then your Court of
10 Veterans Appeals is 850,000 and that is a passthrough
11 grant this year to help with the Court of Veterans
12 Appeal project.

13 MR. SMEGAL: Is that a constant amount or does
14 that something somebody lobbies for?

15 MR. RICHARDSON: It changes each year but it
16 is the court who makes that money available to us.
17 Basically what you see on page seven will then track
18 directly over to page eight because what you'll see is
19 that we have a total appropriation of \$300 million
20 there in the first column, you have your carryover,
21 that \$1,030,934 -- you may have a document that shows
22 914. There was a little typo which I corrected on

1 subsequent material.

2 And Ms. Mercado will pass that out as soon as
3 this presentation is over because what we had done in
4 the materials in the next line is to show a
5 presentation -- temporary operating budget but since
6 we're asking you to approve a temporary operating
7 budget or a consolidated operating budget, I've given
8 her materials to pass out that we would now compare the
9 expenses that we'll talk of next versus the actual
10 budget.

11 We have moved \$200,000 of other funds
12 available into management administration in column
13 three along with the Court of Veterans Appeals money.
14 Basically when you look at the four columns and the
15 additions across you'll see that there is \$290,000 for
16 grants, there's 9,841,000 for management administration
17 and the carryover and appropriation for the inspector
18 general business or budget at \$2,176,000.

19 What we're here today to do is to ask that you
20 approve our budget of \$302,080,934. There is a
21 document that I passed out to many of you that explains
22 and highlights the basic features in the management

1 administration budget. A few members have joined us;
2 let me get another copy of that.

3 What I have done is summarized in this
4 document the items of the budget for management
5 administration and the inspector general has given me a
6 paragraph that closes the document at the end. This
7 budget of course is presented on behalf of the
8 management of the Corporation. Each director has gone
9 over the budget, has provided us an estimate of their
10 salary costs and their different operating expenses.

11 The key portion of this presentation for the
12 board of directors, which is included in your budget,
13 are \$190,000 for this coming year that anticipates two
14 board meetings in Washington, D.C. and three outside of
15 the D.C. area. It also contemplates one other meeting
16 to celebrate the twenty-fifth anniversary.

17 In addition to that, the staffing that the
18 directors have requested is for 79 staff members in
19 this current fiscal year and that carries forward to
20 the year 2000 appropriation request and you'll be
21 getting materials on that later that Mr. Mauricio
22 Vivero will provide for you.

1 In the executive office last year and again
2 this year, we have six members budgeted for the office.
3 General counsel there is seven. There is an increase
4 of one attorney for this fiscal year and of course that
5 will carry forward into next. In your government
6 relations and public affairs there's five,
7 administration and human resources there's 13,
8 controller's office there's six, there's one addition
9 in my office for the next year, information technology
10 there's eight, that's one addition there, and in
11 competition and program improvement there's 16,
12 information management there's six and in compliance
13 and enforcement there's 12.

14 You have seen the competition information and
15 management compliance combined before. We have split
16 those three divisions out of office of program
17 operations and have set up three separate offices for
18 them and last year we had basically 34 members in that
19 particular staff. Through attrition and people moving
20 back and forth, it's basically a status quo budget at
21 this point for that office.

22 There's one item in the executive office that

1 you may question and it's a big item at the bottom
2 because there's a \$385,000 contingency at that line.
3 Most of you are aware that we are undertaking a salary
4 comparability study. The results of that have not been
5 finalized and we'll get a report about that later. We
6 are moving forward but we have set aside some money for
7 the implementation of the study.

8 In addition to that, we are planning some
9 activities for the twenty-fifth annual events in July.
10 We're organizing a meeting -- going to have a meeting
11 planner and we're trying to get some space in the
12 Capitol --

13 MR. EAKELEY: White House?

14 MR. RICHARDSON: Capitol at this point, White
15 House also. There's many things in the works that are
16 not finalized so what we've done is we've just sort of
17 set some money aside to help accommodate for the needs
18 that may arise here. Also, there's the prospects of a
19 building and we have set some money aside to provide
20 some funding for expenditures there whether it be
21 architectural rendering or a consultant to help with
22 fundraising, whatever may come up, and we just tried to

1 set some money aside for that. So that's the reason
2 that there is a rather large sum of money at this point
3 in that line.

4 In the general counsel's office, last year we
5 spent close to \$200,000 in legal fees so we budgeted
6 approximately the same amount this year, slightly
7 increased in that particular line. In the office of
8 administration we budget each year for our consulting
9 fees and this is also helping with the comparability
10 study and we're doing some management training, there's
11 some computer training, there's a lot of activities
12 going on with the review of the -- the additional
13 review of the 403(b) programs and compliance issues
14 there that we're following up on so this money is set
15 aside to handle the expenses that we expect to incur
16 there.

17 You see there's a work flow analysis for
18 programs, connectivity for Docutech and that is -- if
19 you've been around the Corporation in the mail room
20 there's a rather large copier there that we can
21 integrate within our computerized systems when we do
22 systems integration and be able to print major

1 documents directly on the Docutech.

2 That would save us some time and hopefully
3 streamline operations. A lot of times currently we
4 have to print on a satellite printer and then take it
5 to the copy center to have it reproduced and this would
6 give us the capabilities of doing it straight through
7 the Docutech.

8 The occupancy cost this year is a net of -- a
9 deferred rent incentive of 190,000 and the sublease
10 that we have with Capital Community Health Project and
11 the net cost is \$1.3 million this year. Also within
12 the office of administration is 163,000 for the other
13 operating expenses. This is for the supplies and
14 equipment rental that we have but the major portion
15 here obviously is 75,000 for the commercial liability
16 insurance coverage and this year we've already paid
17 71,000 and there's one additional policy to come in so
18 we're close at this particular juncture as to how much
19 we've paid there.

20 There's also capital expenditures of 170,000.
21 This is for the purchase of some new furniture,
22 telephone upgrade, voice mail and we are also doing

1 some construction on the eleventh floor to bring in a
2 few more offices for staff that are coming in.

3 Within the office of information technology,
4 the major line here is our consulting costs, \$227,000,
5 and that includes money for a simple computer document
6 management. This is different from the Docutech
7 connectivity because what we've had for years is, for
8 instance, when we would produce a board book, we have
9 transcripts for our meetings, we have the meetings,
10 everything is in paper.

11 This is the beginnings of putting that into a
12 system where we can access it through our desktop
13 through the computerized searching capabilities and
14 this will hopefully eliminate some of the space needs
15 and some of the appear that we've got around the
16 Corporation in different nooks and crannies and have it
17 to the point where it's easily accessible to those who
18 need it on the system.

19 And this also includes another upgrade in
20 there, a GIMS process. This \$35,000 in this particular
21 line is for that and GIMS is a Grants Information
22 Management System. That has been moving forward very

1 well. Much of the reporting that our grantees now are
2 doing through the Internet and this money and this
3 program has helped to facilitate that.

4 MR. BRODERICK: David, can I ask you, is there
5 a consulting line for fiscal '99 comparable to last
6 year or is it higher or lower?

7 MR. RICHARDSON: It -- let me refer back for a
8 moment.

9 MR. BRODERICK: It looks like about 12 percent
10 of the budget went to consultants.

11 CHAIR MERCADO: Which line, the information
12 technology?

13 MR. BRODERICK: No, the entire consulting line
14 across.

15 MR. RICHARDSON: Within the budget that --
16 excuse -- the financial statement, the total consulting
17 that we had last year was \$770,000.

18 MR. BRODERICK: So it's almost double last
19 year?

20 MR. RICHARDSON: 770,000 last year and then
21 this year the consulting there's 853. So it's up --

22 MR. McKAY: You've got the IG in there; you're

1 looking at the --

2 MR. BRODERICK: It's at the far column -- I'm
3 including the IG I guess.

4 MR. RICHARDSON: Yes, I'm sorry; that is one-
5 fourth.

6 MR. BRODERICK: All right.

7 MR. RICHARDSON: If you recall, within the
8 IG's budget there is an increase of -- last year the
9 preparation was 1.5 million; this year is \$2,015,000.
10 A good bit of that will go to consulting of course for
11 the IG. He is using consultants to facilitate some of
12 his reviews. He is here; he'll -- surely Mr.
13 Quatrevaux can answer any questions that you may have
14 about that.

15 MR. BRODERICK: Okay; thank you, David.

16 MR. RICHARDSON: The other initiatives that we
17 have also in the capital expenditure line in the
18 information technology area is \$391,000 and that is for
19 -- we are getting new computer systems, we're getting
20 some new software, we're upgrading our messaging and
21 calendaring services and it also includes an upgrade
22 for a CD tower for legal research.

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1 We do a lot of that through Westlaw and we're
2 hoping to facilitate that through the use of this CD
3 rom and hopefully cut out some of the expenditure there
4 but of course there is expenditure to getting the CD's
5 in each month and upgrading the system. So we're
6 hoping that these expenditures in the long run will
7 help us to reduce some of the costs that we have in
8 subsequent years with their use.

9 I have put very little in with regard to a
10 competition initiative and the information technology
11 and compliance. They are planning -- because of state
12 planning there is a small increase in consulting,
13 there's an increase in travel because of the need for
14 the compliance and enforcement to be in the field
15 reviewing and following up on some audits that we have
16 and handling any compliance issues that arise.

17 Another bit of very quick --

18 MR. EAKELEY: Dave, don't leave that last
19 subject for a minute. Where are we in terms of added
20 funds or finding funds for taking core systems for the
21 state planning process?

22 MR. RICHARDSON: Okay. Within the lines that

1 I explained with the grants from other funds available,
2 last year we --

3 MR. EAKELEY: I might have missed that
4 explanation; sorry. I apologize.

5 MR. RICHARDSON: I sort of went through it
6 quickly but last year we collected like \$177,000 in
7 funds from the grantees to fund balance recoveries and
8 so forth. We have included that with the grants from
9 other funds available so the 205,000 that we've got as
10 carryover, some of that will go towards your state
11 planning and other initiatives.

12 So basically we have 205,000 there that can go
13 to those initiatives. We have spent 27,000 thus far.
14 We had a flood in Texas and we provided some emergency
15 relief there with the carryover funds that the board
16 had already designated for that so if you look at the
17 document that Ms. Mercado has, you'll see that there's
18 still 4178,000 of which a good bit of that will go to
19 state planning.

20 MS. FAIRBANKS-WILLIAMS: One other question.
21 You're talking about the CD tower and so on and so
22 forth and this that you're putting in now, is this

1 going to be compatible to things changing every three
2 years in technology like it's doing or five years down
3 the road are we going to have to do this again?

4 MR. RICHARDSON:: Well, we're hoping to set a
5 plan in place where we're actually replacing one-third
6 of our computers a year so that we are in a constant
7 upgrading situation where we're not falling behind the
8 eight ball as far as having new technology and new
9 things coming into the Corporation. The machines that
10 we're getting are state-of-the-art at this point but of
11 course, as you say, it changes very rapidly.

12 MS. FAIRBANKS-WILLIAMS: And you have a
13 computer expert that can put all of these things
14 together, old and new, and make them work? You're to
15 be congratulated if you have.

16 (Applause.)

17 MS. FAIRBANKS-WILLIAMS: We have someone who
18 talks to the computer and if the computer doesn't
19 answer back, he takes it down off the floor and
20 discusses its innards with it and it better work or
21 else. So some of these modern ones are not going
22 together very well.

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1 MR. RICHARDSON: Well, what we have is there's
2 money available that if they can't get it done, that
3 there is some money available to bring in people who
4 can get it done.

5 MS. FAIRBANKS-WILLIAMS: Or to buy something
6 that will mesh.

7 MR. RICHARDSON: That's correct.

8 MR. EAKELEY: I'm still not clear. I know
9 that there are some funds available for technical
10 assistance in the planning project for grantees but do
11 we have something spelled out in the budget?

12 MR. HOGAN: Madame Chairman, may I address
13 that, please?

14 CHAIR MERCADO: Yes.

15 MR. HOGAN: We had discussed this --

16 CHAIR MERCADO: Just state your name for the
17 record.

18 MR. HOGAN: Well, Mr. Eakeley has been to the
19 Corporation and brought to us a message that a lot of
20 programs were looking for some assistance from the
21 Corporation to assist them in their state planning
22 efforts. These are initiatives we're asking them to

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1 conduct but they didn't have access to resources
2 available so Karen Sarjeant and I met with the
3 president, we discussed how much money we had available
4 in recovered funds.

5 That money, which the board -- the finance
6 committee has been requested to transfer over to grants
7 from other funds accounts we've set aside originally
8 \$75,000 to be available for support of state planning
9 initiatives. The balance of that is earmarked for
10 disaster relief. We have several requests pending. We
11 have one for 75,000. We made a promise to a Texas
12 office to come up with another 15,000 for them but we
13 didn't have the money available in that grant fund
14 account until the board makes its decision.

15 We will assess this later on and Karen and I
16 will meet again and try to figure out whether we're
17 going to need all the money that we have set aside for
18 disaster relief and if there are any other funds
19 available in that account we will make those available
20 for the state planning initiatives.

21 MR. EAKELEY: Maybe we can deal with this in
22 the provisions committee because we're going to be

1 talking about state planning.

2 MR. HOGAN: I think Bob Gross will be happy to
3 discuss that with you.

4 MR. EAKELEY: I think the idea of earmarking
5 -- dedicating -- just having a dedicated fund with some
6 criteria for drawing it down might have -- well, it's
7 something we had discussed.

8 MR. HOGAN: Yes; exactly.

9 MR. MCKAY: Madame Chair, I would just add,
10 I'm John McKay and that was Jim Hogan, the vice
11 president for administration which I think is what you
12 were trying to get from him but never did.

13 MR. HOGAN: I never tell anyone my name.

14 MR. MCKAY: As I understand it, the transfer
15 that the finance committee is being asked to approve
16 today is 200,000, 75,000 is earmarked by management
17 once the board gives it authority to be used in state
18 planning and what Jim is saying is that if we don't
19 have too many calls on it from an emergency standpoint,
20 we may designate additional funds into that fund and I
21 believe Bob Gross will be presenting some additional
22 detail --

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1 MR. EAKELEY: Well, I'd be -- can we, for
2 example, if we are really efficient or don't use all of
3 our budget, the funds in a particular category, do an
4 interim transfer to replenish that technical systems
5 fund if we decide --

6 MR. MCKAY: I don't think you'll need to do
7 that. You're already making the transfer now of the
8 200 --

9 MR. RICHARDSON: 205,000.

10 MR. MCKAY: -- 205,000. And if we don't, we
11 are authorized once you transfer that to do it so that
12 will be the plan and the details of it will be
13 presented by Bob as to how those funds will be
14 disbursed from the first allotment.

15 MR. SMEGAL: I have a question.

16 CHAIR MERCADO: Yes, Tom.

17 MR. SMEGAL: I asked about footnote 9 in the
18 1998 audit and are there some plans for the Wilkinson
19 trust fund?

20 MR. RICHARDSON: There has not been a report
21 because we just got that finalized last week. Of
22 course this was already prepared and in your hands but

1 it is one source of funds that we could look to for
2 some of these other projects.

3 MR. MCKAY: The short answer is we haven't
4 spent it yet but we'll figure out how we're going to do
5 that.

6 CHAIR MERCADO: Did we have some basic idea of
7 what we were looking at as far as funds on the state
8 planning projects? What was the amount?

9 MR. MCKAY: Which aspect? 75,000 is what
10 management would expect to fund the technical
11 assistance request out of the 200,000 that you will be
12 transferring in this meeting but as Jim pointed out,
13 that is also the fund that we use for the FEMA, the
14 emergency relief like the Del Rio office in Texas.

15 Our hope is that depending on the response in
16 the field which we think will be -- they'll have a
17 brisk call on it, that we will be meeting to transfer
18 additional funds. But you're giving that authority now
19 by transferring the \$200,000 fund. So -- but our
20 intention is, and it will be presented in provisions
21 tomorrow, to take 75,000 of that, make it available in
22 state planning.

1 CHAIR MERCADO: Okay. I just simply needed to
2 know whether or not that was going to be sufficient and
3 whether there was actually additional. And that's the
4 discretionary part that you're talking about.

5 MR. MCKAY: I think it is sufficient for us
6 given that we may -- I think we're all anticipating
7 that in addition to the 75,000 we'll have some
8 availability out of that 200 to make another transfer
9 but we're starting with 75,000.

10 CHAIR MERCADO: Okay; go ahead.

11 MR. RICHARDSON: That is the basic
12 presentation for the '99 proposed budget. What we're
13 asking of course that you do is to approve the budget
14 with the elements that we talked about, which will be a
15 budget of \$302,080,934.

16 MR. EAKELEY: So --

17 CHAIR MERCADO: Did you have a question?

18 MR. SMEGAL: I do. David, I've got the sheet
19 that shows 79 total staff. I've written down the
20 numbers you gave. I heard you say increase is one in
21 the general counsel, office of controller and
22 information technology. Do I conclude from that that

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1 we have 76 employees in 1998 and are increasing by
2 three?

3 MR. RICHARDSON: No because what happened is
4 we had a basic -- let me grab the document for a quick
5 second. In the budget document you'll see sheets that
6 show staffing. Last year we had budgeted full-time
7 equivalents of 69 staff but included in that 69, you
8 know, if you got somebody half year -- you got two
9 people half year that's one. What we had was
10 approximately 75 employees so what we do have here is
11 an increase of five employees total throughout the
12 corporation.

13 I'm trying to think where the rest -- there's
14 of course one in my office, one in information
15 technology, there's an additional attorney in general
16 counsel for this year, there's also one for last year
17 and there was one addition in the office of program
18 operations for last year that's spread throughout here.

19 But the FTE -- it sort of throws it off a
20 little bit and what I wanted to do this time was just
21 to show you how much staff we anticipate to have this
22 year and next year because we don't anticipate any

1 increase next year in staffing.

2 MR. MCKAY: I think -- I'm sorry; Jim, did you
3 want to --

4 MR. HOGAN: Madame Chairman, if I could just
5 address that. In the 1998 budget request, we had 11
6 staff position increases, staying away from the FTEs.
7 They're not all on board this year so when we went into
8 the request this year, the 2000 request which I notice
9 was just passed out, we made a management decision that
10 until we bring those people on and we see how much we
11 can accomplish, it's foolish to think that you're going
12 to raise your staffing. So our request for that 50,000
13 goes in flat.

14 But last year we had a request for 11 FTEs and
15 we were successful with that request and we're bringing
16 those people on throughout the corporation. Most of
17 them are in program operations but there's one or two
18 here and there in areas where we were really
19 short-handed.

20 MR. SMEGAL: Well, I guess my question really
21 is are we being realistic, do we have enough people.

22 MR. HOGAN: Well, I think the short answer to

1 that is probably you'll never really have enough. We
2 are operating -- we're very shorthanded. Everybody
3 wears many hats in the Corporation but until we
4 complete a year where we have the full number of staff
5 that we receive through the budget process, and we can
6 articulate specifically who we need and to do what
7 task. We felt that we couldn't go forward with that
8 request.

9 MR. MCKAY: It wasn't until our budget was
10 approved this year and we felt confident that we could
11 bring the actual number of employees up to the FTEs so
12 now we're bringing them on. A lot of us have spent
13 time interviewing the past couple of weeks. We're
14 excited about that, to get people on board and take
15 some of those hats off

16 CHAIR MERCADO: Any other questions from any
17 of our board members?

18 MS. FAIRBANKS-WILLIAMS: I saw Bucky with his
19 hand up earlier. Did you get your question answered?

20 MR. ASKEW: Thank you.

21 MR. BRODERICK: On the carryover here, 655,531
22 for fiscal '98, what accounts for that?

1 MR. RICHARDSON: Basically that is where we
2 had staffing who left during the year, we didn't get
3 them replaced and things that we were trying to get
4 finished in the last quarter just weren't completed and
5 hopefully will be completed this year. That's sort of
6 the way our operations have been going from year to
7 year. We have had as little as 400,000; we have had
8 upwards to a million dollars in carryover but it's
9 mainly just where your plans that you've had during the
10 year to get certain areas or things accomplished, you
11 can't because of reduced staff, travel plans change,
12 emergencies come up, so you sort of redirect your
13 efforts to accommodate the emergencies and sometimes
14 that means you don't spend all your money.

15 MS. FAIRBANKS-WILLIAMS: So actually some of
16 this already designated for plans that you already
17 made?

18 CHAIR MERCADO: Right.

19 MR. RICHARDSON: Within the budget that we're
20 asking you to pass; yes.

21 CHAIR MERCADO: Any other questions? Okay;
22 hearing none, I'm going to entertain a motion to

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1 approve the COB for FY '99.

2 MR. SMEGAL: What do you think, John?

3 M O T I O N

4 MR. BRODERICK: I don't think we have much
5 choice; sorry.

6 MR. SMEGAL: I'll second John's motion.

7 CHAIR MERCADO: All in favor?

8 (Chorus of ayes.)

9 CHAIR MERCADO: I guess I should ask for
10 objections. Okay; now the other item, and I think Mr.
11 Richardson is also going to present this, is the review
12 of expenses through December 31 of '98.

13 MR. RICHARDSON: On page five and six of the
14 board book you do have a report of the temporary
15 operating budget. Ms. Mercado, would you like to go
16 over that as far as review with the temporary budget or
17 the budget we just passed?

18 CHAIR MERCADO: Are the figures going to be --

19 MR. RICHARDSON: They will be changed because
20 we had temporary operating budgets --

21 CHAIR MERCADO: Right. We didn't have those
22 specific amounts before.

1 MR. RICHARDSON: Right. I have additional
2 copies. This will summarize all the documents that
3 you've got into one page, basically.

4 The second page, page six, will not change.
5 What we have is in the board book you had a temporary
6 operating budget that you passed of \$9,700,000. The
7 budget that you've just approved is for 12,016,000 for
8 M&A. So this is a better look at the picture of the
9 Corporation, the financial standing as we are right
10 now.

11 The temporary budget shows that we're spending
12 21 percent but when you look at the actual spending
13 versus the budget that you have in front of you, it is
14 now shown that we are spending the first quarter 17
15 percent of our money and when you compare that the
16 board of directors has a budget of 180,000 and we've
17 spent 15,000 to date, so we have 164,000 for the
18 remainder of the year, almost 165.

19 The executive office has a budget of
20 1,148,000, 149, and we've spent 175,000 to date so
21 there's 975,000 remaining; that's 15 percent of the
22 annualized budget that has now been spent. Within the

1 general counsel, you have a budget of 806,000. That
2 represents almost 13 spent because we've only spent
3 104,000 to date.

4 Within the government relations, 382,000,
5 we've spent 85,000 to date, that's 22 percent of the
6 budget. Administration and human resources was a
7 budget of 2,651,000 and we spent 552,000 so that's 20
8 percent of the budget. Within the controller's office,
9 it's 494,000, we've spent 91,000 so there's 402
10 remaining, that's 18 percent of the budget.

11 Information technology is 102,000 budget,
12 we've spent 115,000 to date, that's 10 percent of the
13 budget. And within the office of competition and
14 program improvement, 1,577,000, spent 274 to date and
15 that's 17 percent of the annual budget. Within
16 information management, budget is 417,000, we spent 92
17 so that's 22 percent of the budget. And within the
18 office of compliance and enforcement, there's 985,000
19 budget, we spent 156, so that's 15, almost 16 percent
20 of the budget.

21 In the IG's office, the revised budget is
22 2,176,000. He has spent to date 350,000 so that's 16

1 percent of the budget. And that will be the comparison
2 as shown against the temporary budget.

3 Within the first area is the delivery of legal
4 assistance, your basic field and the money that we've
5 provided to the field programs and as you see there,
6 the total budget is 290,000. We have given contracts
7 to date of 283,000 so there's \$7 million left for the
8 remainder of the year.

9 CHAIR MERCADO: Yes?

10 MR. SMEGAL: You were kind enough to give us
11 the percentages of expenditures on these various
12 categories, A, one through ten and B, for the first
13 quarter, all of which are substantially under the
14 budget and in light of the fact that if we continued at
15 this rate in all those categories for this year, we
16 would have another carryover of about 750,000, roughly.
17 And why do we want to do that?

18 MR. RICHARDSON: We do not. Of course what
19 we're doing is we've waited for much of the activities
20 in the Corporation to commence until we get a full
21 budget in place. We are interviewing people but there
22 has not been hires yet. We're hoping in the next few

1 months to get the people on staff that we hope -- the
2 computer initiative, there was a great deal of money
3 for new software and computers, that will come in at
4 basically one point in the next few weeks. So we
5 should not have that amount of carryover.

6 I can't say we won't because there's always
7 emergencies that come up and always things that happen,
8 people coming and going through the Corporation. I
9 don't recall right off but I think last year we lost
10 four staff members during the year and we were only
11 able to replace one. So we are looking to get full
12 staffed, take on the activities and initiatives that we
13 have and hopefully we will have minimal carryover.

14 MR. SMEGAL: It seems to me we are well
15 advised -- if Congress is going to give us 8.985
16 million for management administration, we are well
17 advised to spend something like 8.985 million.

18 MR. RICHARDSON: That's correct.

19 MR. SMEGAL: Not 6.4.

20 MR. RICHARDSON: Agreed.

21 MR. EAKELEY: I guess the budget we just
22 passed contemplates that but I think I'd be more

1 worried if we were overspending in the first quarter of
2 a different year with a different budget aggregate than
3 underspending.

4 CHAIR MERCADO: And I think the manner in
5 which the budget has been dealt with, until we had a
6 definite budget amount appropriated, we didn't do any
7 of the projects or plans that were ahead or hiring any
8 new people. We're trying to be cautious.

9 MR. EAKELEY: Or to ask Tom's question another
10 way, are we budgeting for a carryover or is the results
11 of the first quarter reflective simply of the first
12 quarter?

13 MR. RICHARDSON: Just simply of the first
14 quarter; we're not budgeting for carryover.

15 CHAIR MERCADO: Any other questions?

16 (No response.)

17 CHAIR MERCADO: Hearing none, I will entertain
18 a motion to approve the expenses.

19 M O T I O N

20 MR. SMEGAL: I move the approval of the
21 expenses for the first quarter of fiscal year '99.

22 MR. BRODERICK: Second.

1 CHAIR MERCADO: All in favor?

2 (Chorus of ayes.)

3 CHAIR MERCADO: Any other items that we have
4 on our agenda?

5 MR. HOGAN: Madame Chairman?

6 CHAIR MERCADO: Yes.

7 MR. HOGAN: May I just comment on the budget
8 document that was handed out to the members of the
9 board. This is consistent with the \$340 million that
10 the board approved as we go forward as a budget for
11 fiscal year 2000. I mentioned before when I was
12 speaking that there's very little increase in there for
13 M&A, there's no staff increase, the M&A side of it was
14 increased, I think, approximately three percent; is
15 that correct, David?

16 MR. RICHARDSON: That's correct.

17 MR. HOGAN: For inflationary increases. We
18 put an inflationary increase in the field portion of it
19 of about three percent and then we had specific
20 programmatic increases, technology piece and a piece
21 for domestic violence and several legal needs of
22 children. I don't have to repeat everything that's in

1 there but you can read this in there.

2 One of the things that's going to be a little
3 bit different in this year's budget than last year's is
4 in the technology piece, after our discussions with
5 staff and staff on the Hill, we decided to try to make
6 more demonstration projects out of that technology
7 piece and have half demonstration projects and half
8 formally-given grants in an attempt to try and place
9 the money with some programs that wanted to be more
10 advanced in their thinking, wanted to develop models
11 for the other programs to use. So we're hopeful that
12 Congress will support us on that.

13 If there are any questions, I know Mauricio
14 has been working real hard on this. He's here as well
15 to answer any questions you may have throughout the
16 board meeting about the budget.

17 MR. MCKAY: This is hot off the press, right?

18 CHAIR MERCADO: Right.

19 MR. HOGAN: Hot off the press.

20 CHAIR MERCADO: Consequently meaning that
21 board members haven't had a chance to review or comment
22 on it.

1 MR. MCKAY: No, that's right.

2 MR. HOGAN: Literally in the last --

3 MR. MCKAY: I think they're still warm.

4 CHAIR MERCADO: So they'll review and --

5 MR. MCKAY: Our hope was that you could read
6 it in the sun.

7 CHAIR MERCADO: If there's no other questions
8 by committee members and board members and a full room
9 of public presence here -- yes, Mr. President.

10 MR. MCKAY: And I would like to invite all of
11 our attendees to a reception in the upper pool area at
12 5:30 which as I understand it you enter in through the
13 J.J.'s restaurant; is that right?

14 UNIDENTIFIED SPEAKER: Yeah; and you go
15 upstairs.

16 MR. MCKAY: Upstairs in the restaurant?

17 UNIDENTIFIED SPEAKER: Or you can also walk
18 through the spa.

19 MR. MCKAY: You go through the spa or go into
20 J.J.'s restaurant which is Jimmy Johnson's and it's
21 called the upper pool area at about 5:30 and we have
22 some hor's d'oeuvres and I think a cash bar.

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1 UNIDENTIFIED SPEAKER: It's the portion of the
2 hotel that's closest to the beach so you just run
3 towards the water.

4 CHAIR MERCADO: Thank you. Hearing no other
5 business, I entertain a motion to adjourn.

6 M O T I O N

7 MR. BRODERICK: So moved.

8 MR. SMEGAL: Second.

9 CHAIR MERCADO: Thank you.

10 (The meeting was adjourned at 4:35 p.m.)