

LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

FINANCE COMMITTEE

Friday, January 26, 2001

3:30 p.m.

Embassy Suites Hotel
300 Tallapoosa Street
Montgomery, AL 36104

CORRECTED COPY

COMMITTEE MEMBERS PRESENT:

Nancy Rogers, Chair
John N. Erlenborn
LaVeeda Morgan Battle
Douglas Eakeley (ex-officio)

BOARD MEMBERS PRESENT:

Maria Luisa Mercado
Edna Fairbanks-Williams
F. William McCalpin
Thomas F. Smegal, Jr.
Ernestine Watlington

STAFF AND PUBLIC PRESENT:

John McKay, President
James Hogan, Vice President for Administration
Victor M. Fortuno, Vice President for Legal Affairs,
General Counsel, and Corporate Secretary
Mauricio Vivero, Vice President for Government Relations
and Public Affairs
Randi Youells, Vice President for Programs
John Hartingh, Special Assistant to the President
Leonard Koczur, Acting Inspector General
Laurie Tarantowicz, Acting Inspector General for Legal
Review
Mattie C. Condray, Senior Assistant General Counsel
Michael Genz, Director, Office of Program Performance
Alice Dickerson, Director, Office of Human Resources
Leslie Russell, Director, Office of Information Technology
David Richardson, Treasurer and Comptroller
Robert Gross, Senior Program Counsel, Office of Program
Performance
Julie Clark, Vice President for Government Relations, NLADA
Jonathan Ross, Chairman, Standing Committee on Legal Aid
and Indigent Defendants, ABA
Calvin Harrelson, Vice President, Diversified Investment
Advisors

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

2 CHAIR ROGERS: Let the record reflect that all of
3 the members of the finance committee are here. And in
4 addition, a member -- our ex-officio, Doug Eakeley, is here,
5 and other board members, Edna Fairbanks-Williams, Ernestine
6 Watlington, Tom Smegal, Maria Luisa Mercado, Bill McCalpin,
7 and our president, John McKay.

8 M O T I O N

9 CHAIR ROGERS: The first item is approval of the
10 agenda. Is there a motion for approval?

11 MS. BATTLE: So moved.

12 MR. ERLNBORN: Second.

13 CHAIR ROGERS: In favor?

14 (Chorus of ayes.)

15 CHAIR ROGERS: I understand, David Richardson, that
16 the first item for us to consider is to consider and act on
17 the staff recommendation to change the pension provider.

18 MS. DICKERSON: Thank you, Madam Chairperson,
19 members of the committee. For the record, my name is Alice
20 Dickerson, and I'm director of human resources for Legal
21 Services Corporation.

1 As you're aware, staff has made a recommendation
2 that we change the -- transfer the assets and the
3 administration of the pension plan from our current carrier,
4 Mutual of America, to Diversified Investment Advisors.

5 So that you can know a little bit about the process
6 we followed in arriving at this decision, I'll go through
7 some of that with you now, and then we'll have the
8 presentation.

9 First of all, we have reviewed -- we review all of
10 our benefits periodically, in order to make sure that we are
11 remaining competitive, in order to attract and retain the
12 highest quality employees for the corporation.

13 To that end, we reviewed various aspects of the
14 403(b) thrift plan. We have had concerns on an ongoing basis
15 with the administration of the plan. There have been a
16 number of administrative problems, and we have had concerns
17 related to the reliability of the responses that we get from
18 Mutual of American when we have inquiries.

19 We've also been concerned about the limited number
20 of investment choices that are offered, and we are
21 knowledgeable that employees need significantly more

1 investment counseling than is currently provided.

2 We're also aware that many times, plan participants
3 try to sue their employers on the basis that they were not
4 provided sufficient educational information as far as how to
5 invest wisely.

6 To that end, we would like to be able to adopt
7 section 404(c) of the IRS code. However, we've been unable
8 to do that, because we don't get the sufficient amount of the
9 administrative support from our current provider.

10 We believe that this would help to protect LSC and
11 offer some liability from some plan participants, if they
12 make unwise investments.

13 As a result of our concerns, we got proposals and
14 quotes from several other pension administration providers to
15 ascertain the cost that would be involved, and to determine
16 the level of services provided, as well as to look at the
17 number of investment choices that would be offered by other
18 providers.

19 We then narrowed those choices down to four
20 possibilities. They were Diversified Investment Advisors,
21 Mutual of America, Lincoln National, and Principal Financial.

1 Then we began to further narrow them down.
2 Principal Financial was determined to be the most expensive
3 of the four. They were followed by Mutual of America, then
4 Lincoln, and Diversified came in as the least expensive.

5 Then of the final two contenders, Diversified, and
6 Lincoln National, we determined that Diversified offered the
7 best overall reliable service at the most reasonable cost,
8 along with a wide array of investment options and an
9 excellent education and communications program.

10 Once that determination was made, Carolyn Harrison,
11 the vice president of Diversified Investment Advisors,
12 conducted a presentation for David Richardson and I, after
13 which we then recommended to the vice president for
14 administration that we consider making this change.

15 There was then, this second presentation for
16 members of senior management, to which we also invited John
17 Erlenborn, and he was kind enough to join us.

18 After that presentation, everyone who attended was
19 sufficiently impressed. We then held a telephone conference
20 consultation, of which Mr. Erlenborn also participated. And
21 at that time, decided we would make this recommendation to

1 the board.

2 So at this time, I would like to introduce to you
3 Calvin Harrelson, the vice president of Diversified
4 Investment Advisors, who will provide you information on the
5 significant benefits to LSC, to make this change. Calvin?

6 CHAIR ROGERS: Welcome.

7 MR. HARRELSON: Hi, I'm Calvin Harrelson, with
8 Diversified Investment Advisors, and I have prepared today an
9 executive summary of materials to give you some sense of who
10 we are, and what we're about in the retirement plan area.

11 In front of you today is a copy of the
12 presentation. We also have another kit that is very
13 complete, with an awful lot of information, and I will refer
14 you to some of that as we go through this.

15 I've been with the firm about 10 years, and I'm out
16 of the Charlotte, North Carolina regional office. And just
17 to give you some sense of what we wanted to cover today, just
18 who we are, and our philosophy on doing business in the
19 retirement plan market, our institutional investment
20 approach, how we communicate to both the employer, as well as
21 to the participants in a program, the comprehensive

1 administration and technical guidance that we bring to plan
2 sponsors, and then why Diversified?

3 As a mission, our company is dedicated to helping
4 participants to save and invest wisely for retirement. All
5 of you all also have a retirement savings kit that I'm going
6 to leave behind for you to take a look at that gives you some
7 sense of the type of workshop environment that we take
8 participants through to make certain that they are well
9 educated, and make informed decisions about how to invest
10 their retirement dollars.

11 Just to give you a sense of our organization, the
12 two red stars up here represent operations centers. We're
13 actually headquartered in Purchase, New York. We also have a
14 major operations center in Cedar Rapids, Iowa. We also house
15 two different call center there, so that if we have weather
16 conditions, or what have you, that would shut one down, we
17 move all of the call center activity to the other.

18 The only business that we're in is retirement. We
19 don't retail stocks and bonds, we don't have any other
20 benefit business like health and welfare, it's strictly 700
21 people dedicated day in and day out to serving plan sponsors

1 and their participants.

2 We have over \$35 billion in assets, we're very
3 proud of long tenured client relationships. In fact,
4 industry averages around seven years, and we average about
5 double that. And most of the people in our organization are
6 very seasoned and have been in the retirement and investment
7 world for quite some time.

8 We have over 550,000 participants country-wide that
9 are calling our call center or logging on to our website to
10 get information about their accounts on a daily basis. And
11 the black dots that you see featured on the map represent the
12 various regional offices that we have to be close to our
13 various clients.

14 This is just merely a representative client list.
15 Our particular market niche is taking over plans that are in
16 existence. We're not in the start-up plan market. So we
17 work with plans that have gotten off the ground, they've
18 perhaps outgrown their provider, and they're looking for more
19 comprehensive, high-quality services. And this, again, gives
20 you some sense of that client base.

21 We have a more extensive listing of our clients in

1 the blue kit on your table. It's probably about four or five
2 items into the right-hand side of that particular booklet, if
3 you'd like to take a look at that.

4 We are a part of a very large global financial
5 services organization by the name of Aegon. Aegon enjoys
6 about 2.5 percent of the worldwide private pension market.
7 The benefit to our clients is that this is an organization
8 with very deep pockets.

9 And in our business, being able to have the deep
10 pockets of an Aegon to invest in systems and technology is
11 really what it boils down to, and we've invested some \$100
12 million over the last eight years on systems alone. And
13 that, of course, is a benefit to participants that, today,
14 really do want timely and accurate information, and we'll
15 talk a little bit more about what's available to people
16 through our technology center.

17 I'm going to transition now and give you just a
18 quick sense of what our investment approach and philosophy
19 is, and refer you to some information in your kits, with
20 regard to performance.

21 We are a registered investment advisory firm, and

1 these are the four tenets of our organization as it pertains
2 to an investment philosophy. This is nothing new, in terms
3 of what the first two bullets are saying, which is to say
4 that asset allocation is the key determinant to investment
5 returns.

6 And secondly, in order to be able to do that,
7 everybody understands today that you have to have a rather
8 broad array that is a style-specific array of investment
9 options for people to be diversified.

10 The second two bullets are where we're a little bit
11 unique to some of our competition, in that we believe that
12 that's best accomplished by the selection and monitoring of
13 outside institutional managers that have a proven track
14 record in a given discipline. And when we believe they're
15 either style-drifting or not performing, or key people in the
16 firm leave, we have a seamless process in place to dismiss
17 that manager and bring another advisor in.

18 We do that on behalf of our clients as a registered
19 investment advisory firm, and it is part of fiduciary
20 protection, in that we are a co-fiduciary in the investment
21 process.

1 Many of the things that we talk about with
2 participants has a lot to do with investment diversification,
3 and that style does matter, and this chart simply gives you
4 some idea of what happens. These are several different
5 styles in the equity markets over the last several years,
6 dating back to 1993 through the end of 2000.

7 And one of the things that I'm sure many of you are
8 aware of is that you'll find a particular style that has its
9 day in the sun, like large cap growth companies in 1998 and
10 1999, and then someone somewhere flips a switch, and the
11 market goes into something else.

12 So the thing that was leading us up has its falling
13 out, it often falls to the bottom of the chart, which was
14 exactly what happened in the year 2000, and something that
15 had been completely out of favor, like value stocks of 1999
16 become the top leader in 2000.

17 What this really illustrates is the need and the
18 necessity that we all have to be well diversified, because
19 none of us know when to bet on which style being next year's
20 leader.

21 This gives you a sense of the broad array of style-

1 defined investment options that we offer to plan sponsors.
2 It's starting from the least risky, least potential return on
3 the bottom, money market, moving out to your more risky asset
4 classes, up to international equity.

5 You also see five blocks above that line, and
6 they're strategic allocation funds. The industry sometimes
7 refers to them as lifestyle funds, and we name them by their
8 time horizon, short horizon out to long. And part of our
9 communications effort is to stratify the investments to give
10 people that really have three different areas of experience
11 in the markets some choices.

12 And one person that might be very inexperienced and
13 uncomfortable making their own investment decisions might be
14 led to go toward the lifestyle strategies, where the
15 portfolios are pre-mixed, and they re-balance for that
16 particular participant.

17 There will be others that are comfortable making
18 their own investment decisions and putting together their own
19 portfolios, and they'll pick and choose amongst the core
20 lineup.

21 And in the box below that, it says, "Schwab

1 personal choice retirement account," is -- represents a third
2 option for, typically, people that seem to be more
3 experienced and savvy. And that has to do with offering a
4 window, if you will, into the world of mutual funds.

5 And what that boils down to is back in 1995, we
6 were one of the first providers to begin an alliance with
7 Charles Schwab, the largest discount brokerage firm. And
8 when plan sponsors offer this as an option, a participant
9 really has the ability to really have access to some 3,000
10 different mutual funds. So it does give people that are very
11 experienced and want more investment autonomy the opportunity
12 to actually have that.

13 This just gives you a quick sense of some of the
14 various institutional money managers of the various funds.
15 Names like Sanford Bernstein, Putnam Investments, McKinley,
16 Goldman, Sachs should jump out at you. But again, these are
17 managers that often have minimums of anywhere from 10 to 100
18 million, and because we're a firm with some \$35 billion in
19 assets, we can meet their minimum requirements for
20 investment, and bring that to our mid-market client base.

21 This gives you some sense of some that we currently

1 have in place. They manage over 1.4 trillion in assets, and
2 they also manage money for clients directly. It's a Who's
3 Who of the not-for-profit world in corporate America.

4 This just gives you a quick picture, and time won't
5 permit to go into what we're doing as a registered investment
6 advisory firm, but this is the part where we're serving as
7 co-fiduciary in doing the monitoring of the managers that are
8 in place. And when necessary, making a seamless change from
9 one manager to another.

10 I'm going to move quickly into the area of employee
11 education and what we do to keep the employer well informed.

12 One of the things that we -- in the past, the
13 industry really had not been able to do what I would consider
14 to be a credible job of educating people about retirement
15 savings, setting goals, and how to get there.

16 What we've been able to do over the last couple of
17 years is to really help guide people to understand the
18 enormous responsibility they have to accumulate a credible
19 retirement.

20 When we get through with a workshop, an enrollment
21 and education session, we really want participants to be able

1 to answer these four questions. And basically, what we're
2 saying is, "How much do you think you will need in
3 retirement?"

4 And most financial planners will tell you that if
5 you can replace 75 percent of what you're accustomed to
6 earning in your work days, during retirement you should be
7 able to live that same standard of living in retirement.

8 So if we understand that's the goal, then how much
9 should you, as a participant in one of these plans, be saving
10 on a pre-tax basis? What rate of return should you start to
11 think is a likely target for you to get that 75 percent
12 replacement goal? And if you understand rate of return, then
13 what is the appropriate asset allocation to get you that?

14 So, we help participants through a host of things
15 to understand what their responsibilities are, and we have a
16 variety of tools. And again, one of the things that I've
17 placed in front of you is a kit that has defer estimator
18 wills and worksheets and things that we go through when we're
19 in person.

20 We also have a host of materials that are available
21 over the Web, and we have a call center that's staffed with

1 very knowledgeable, well-trained, licensed people to deal
2 with participant inquiries. And that particular area is open
3 7 days a week, 24 hours a day.

4 We send out quarterly statements that have an awful
5 lot of good information, including a personalized rate of
6 return at quarter's end. And we have some proactive
7 strategies that we see listed over here, that are
8 Enrollxpress, On-Track, and some others, and that is
9 basically our attempt to go, really, above and beyond what
10 Alice had to referred to a minute ago in the area of 404(c).

11 That's actually a Department of Labor regulation.
12 And what they're asking, or trying to promote here, is the
13 ability for participants to have ongoing access to
14 information, and the ability to make changes when they deem
15 it to be fit to make a change and have access to reasonable
16 amounts of education.

17 All of the things that you see here really go above
18 and beyond the sphere of 404(c), and I will hand out a piece
19 for you to take a look at that gives you some sense of what
20 relief from liability you get as fiduciaries, and also the
21 type of letter that accompanies our education and enrollment

1 material.

2 Yes, both of those would be great. Thank you. So,
3 Dave is going to hand those out to give you some sense of
4 what the reg says, and some of the communications we have
5 with participants.

6 This just profiles those targeted communications.
7 When people are habitually not participating in a plan, we
8 will do a customized target, called Enrollxpress, to make
9 sure they understand the merits of the plan, and give them
10 some type of game plan to join and to receive the benefits of
11 being a participant in your retirement plan.

12 For the people that are already in it, annually
13 we've put together a piece called On-Track. And that is to
14 help people understand if they're saving at the appropriate
15 rate, based on their years until retirement, and do they have
16 an appropriate investment strategy to accumulate that 75
17 percent replacement ratio.

18 For folks that are nearing retirement, we've
19 designed a program called Countdown, and that helps them get
20 in touch with some various retirement philosophies and
21 approaches. And then Retire is designed to communicate with

1 people that are drawing their pension, but want to stay
2 informed about their retirement.

3 As a total quality management organization, we like
4 to survey both you, the sponsor, as well as your
5 participants. And just to give you some sense, of over
6 100,000 employees that we had educational sessions with,
7 almost 100 percent of them felt like they had enough
8 information to create an effective retirement strategy.

9 Eight-three percent of the people that listened
10 that were not in the plan actually decided to join a program
11 based on those efforts that we've made.

12 And 57 percent of current participants, after
13 understanding better using the tools, decide to increase
14 their savings rates, so that they can get on track to
15 accumulate the 75 percent replacement ratio.

16 And over 70 percent of participants make a change
17 in their asset allocation. And so we're pleased that the
18 materials and the delivery of this education is making an
19 impact and people find it useful and are acting on it.

20 There is one other piece, before we go to
21 administration -- and I will pass this around in just a

1 moment -- that we do for the plan sponsor. At the end of
2 each year, we do what's known as an annual plan review. And
3 the annual plan review is designed to be a diagnostic tool to
4 look at your plan versus other not-for-profits, and help you
5 understand if it's a competitive plan, in terms of its plan
6 design, matching features, vesting, and those types of
7 things.

8 That helps people like Alice understand if the plan
9 is going to be a good program to help retain and recruit
10 employees.

11 Then we move into other areas, like trying to
12 understand the diversification of the plan, loan utilization,
13 how many times people are calling the call center, or logging
14 onto the Internet, and what is it they do when they actually
15 make those contacts to the organization?

16 So you have an awful lot of technology, and the
17 question is, is it being utilized? And, how is it being
18 utilized?

19 And then at the end of this particular document, we
20 offer recommendations. Anything that we're doing that we
21 offer that you may or may not have taken us up on, how we can

1 improve the plan to make it a more recruiting and retention
2 tool for you.

3 I'm going to move into the area of plan
4 administration and cover a few things here. When you look at
5 industry statistics, what you find today is that the number
6 one reason that people move plan providers is because of an
7 area of administration, where they're either not being
8 timely, or accurate, or responsive. And a lot of times it
9 has everything to do with a lack of investment in technology
10 and their human resources.

11 Our particular operation, we do own and operate our
12 record-keeping platform, we don't outsource that. Therefore,
13 we're in control of it. It is a very flexible system. We
14 have over 150 of the 700 people dedicated to programming and
15 keeping that particular system up to speed, and it's always
16 an effort to make it be able to do more faster and more
17 accurately.

18 We can do consolidated record-keeping on both the
19 thrift and 403(b) program, uniform communications for both
20 programs, and the same investment options.

21 From an area of technical and trustee services, we

1 have five ERISA attorneys at Diversified, and 50 technical
2 consultants. And we do things like your plan review at the
3 onset, when we're taking over a program, to make sure that
4 the plan has been in compliance. If it hasn't, that's the
5 time where we want to make sure we get everything in good
6 shape during a transition.

7 We also offer a variety of updates to the plan
8 sponsor throughout the year, making you aware of any
9 legislative things that may impact a retirement plan, going
10 forward, and we have the ability online for you to run a
11 variety of different reports about your plan and simply print
12 on demand, so that you can stay very informed: how many loans
13 are outstanding, what's the last thing that went in that
14 you're waiting for, in terms of the distribution, and where
15 is it in the work flow.

16 So, great ways for you to stay informed of what's
17 going on with the plan, and what's happening, technically, in
18 the industry.

19 We also provide all the documents, all of the
20 testing, the maximum exclusion allowances that are required
21 for 403(b)'s, and signature-ready 5500's, and we also offer

1 the trustee services through our partner, Investor's Bank and
2 Trust.

3 Many organizations are concerned, when they go
4 through a transition, about how will they be guided through
5 that, and how much work is going to fall on their personnel.

6 We developed the client integration team, back in 1989, and
7 the whole goal is to help our new clients to make that
8 transition as seamless as possible.

9 And we begin with a complete plan review, we talk
10 about mapping strategies out of the current investment
11 options to the new ones, we talk about the interface with
12 your payroll, whether it's in-house, or you have an outside
13 payroll administrator, if you're doing any planned mergers,
14 or any of those types of consolidations, and then we
15 customize a communication program for your particular
16 employees, and we determine dates and materials and those
17 types of things, and then roll that out to the employees.

18 Generally speaking, it's generally about a 60-day
19 process, from start to finish.

20 I have mentioned the annual plan review. We also,
21 when statements go out to participants, we have quarterly

1 statements that go out to the employer, so that they're well
2 informed of what's going on, and we also do a quarterly
3 investment report to keep you informed, as fiduciaries.

4 The customer contact center is actually in Cedar
5 Rapids. That's where our systems are located. And the goal,
6 again there, is to be able to outsource as many things as
7 possible so that you don't have to go through somebody at
8 Legal Services, so that we can be an extension of your human
9 resource department. People can direct a lot of inquiries to
10 us, they can be handled, in many instances, in a paperless
11 environment.

12 MS. BATTLE: Do you get a person, or do you get a
13 computer when you use the telephone number?

14 MR. HARRELSON: You can get either. So we have a
15 VRU and we also have people on the line. If someone goes in
16 and they've decided they don't want to just hear account
17 balances and those types of things, they go to our
18 participant advisory services, and those people are well-
19 trained and licensed, and they can help them do any type of
20 transaction, or just give them good information about their
21 account.

1 MS. FAIRBANKS-WILLIAMS: In the portfolio that you
2 may have -- four or five list -- can anybody opt out if they
3 don't want to raise Columbian hemp, or something that hurts
4 the environment? Can they pick and choose?

5 MR. HARRELSON: They can. And just on cue of what
6 you just asked, a lot of different people are there to
7 assist. We also have bilingual capabilities, Spanish and we
8 have an AT&T line with over 140 languages available.

9 MS. BATTLE: If I wanted to get an update on
10 account balances, but wasn't talking a quarterly report, can
11 I get that?

12 MR. HARRELSON: You can. You can call toll-free or
13 the Internet, see your account balance --

14 MS. BATTLE: See it?

15 MR. HARRELSON: Yes, yes, sure can. And in fact,
16 one of the pieces that is being introduced as free is a piece
17 called Retire Tech. And Retire Tech is designed to be able
18 to go onto our website and go onto some software, and it
19 immediately populates the fields and gives the participant a
20 picture of their asset allocation, their current savings
21 rate, their years until retirement, and gives them the

1 ability to incorporate their spouse's retirement plan, a
2 pension plan, and a host of other things.

3 So, we're excited about that, and that's going to
4 be something that will be very visual, and very user-
5 friendly.

6 Let me turn now, to give you a quick sense of the
7 fees. When we went through this process a few years ago from
8 that particular time to now, a couple of things have changed
9 in the industry.

10 Number one is that most organizations distributed
11 the investments in a 403(b) plan in the form of a variable
12 annuity. And in just a few years, the common currency in the
13 retirement plan market is mutual funds. And the difference
14 between a variable annuity, which is the type of investment
15 the employees currently have and a mutual fund, is that a
16 variable annuity has a risk and mortality charge and then a
17 mutual fund expense, if you will.

18 And so it's a little bit more of an expensive way
19 to make investments today. And so we are offering mutual
20 funds, not variable annuities, so there's going to be cost
21 savings at the participant level. There will also not be any

1 administrative charges to the organization.

2 There could be a charge if someone wanted to
3 generate a loan, and that charge would be a set-up fee of
4 \$75. Our fund expenses range from 4/10 of 1 percent to 1.25
5 percent, and these funds have no loads or transaction fees to
6 move in and out of them.

7 If someone did make an option to go into the Schwab
8 window, and have some 3,000 funds as a choice, they would pay
9 a fee of \$50 to have that type of investment autonomy, and
10 then they literally have the \$3,000-some funds, and that
11 number tends to grow right at their disposal.

12 And this just gives you a picture of the funds and
13 the net expense ratios, over on the right. And that's -- you
14 can probably see that better in your particular piece.

15 In summary, just wanted to hit on a couple of
16 things that we've covered today. This is our only business,
17 the institutional retirement plan market. We're very proud
18 of what we are bringing to the market place. The not-for-
19 profit here happens to be our largest emphasis, in terms of
20 types of employers that we work with.

21 We do bring an ERISA-based investment approach to

1 plan sponsors, as a registered investment advisor doing a
2 very deliberate selection and then monitoring process of the
3 managers, a very diverse array of investment options that are
4 style-specific that keep you in compliance with 404(c), and
5 again, a communication strategy that's from your -- from the
6 inexperienced to the most savvy type of investor.

7 We do own and operate this record-keeping, and it
8 is state-of-the-art, and it produces some fantastic
9 outsourcing capabilities, for both you and your participants.

10 And as a firm, we're known to be both high-tech,
11 but we're also high-touch. We like to be in front of the
12 participants, and educating them. And with our organization,
13 you do not have to outsource any source of your retirement
14 plan. All of it is handled by us.

15 So I would pause at this point, and see if I can
16 answer any questions. You do have a lot of material in front
17 of you, and I'm certainly available to answer any questions
18 you might have.

19 CHAIR ROGERS: Thank you, Mr. Harrelson. Are there
20 any questions? You have before you, I think, a
21 recommendation from Alice and the staff, and a resolution,

1 which is number 2001-004. Any discussion before we take a
2 vote?

3 (No response.)

4 M O T I O N

5 CHAIR ROGERS: Is there a motion to adopt the
6 resolution that's before us, a resolution regarding change in
7 the corporation's 403 thrift plan that would change the
8 thrift plan, or the plan, from Mutual of America Life
9 Insurance Company to Diversified Investments Advisors of
10 Purchase, New York?

11 MR. ERLNBORN: I'd make the motion, but I think it
12 should be to recommend that the board adopt the resolution.

13 CHAIR ROGERS: I stand corrected.

14 MR. SMEGAL: Second. I can't second, I'm not on
15 this committee.

16 CHAIR ROGERS: All those in favor?

17 MS. BATTLE: I'll second it.

18 CHAIR ROGERS: All those in favor?

19 (Chorus of ayes.)

20 CHAIR ROGERS: Opposed?

21 (No response.)

1 CHAIR ROGERS: Thank you very much, Mr. Harrelson,
2 thank you, Alice, very much.

3 I think we're ready for item three on the agenda,
4 which is the office of inspector general's presentation of
5 the corporation's fiscal 2000 annual audit. Mr. Koczur,
6 welcome.

7 MR. KOCZUR: Thank you. For the record, I'm Len
8 Koczur, the acting inspector general. My purpose today is to
9 present the annual financial audit, the annual financial
10 audit report of the corporation.

11 This year, again, as for the last several years,
12 the -- our auditors, the independent auditors, have issued an
13 unqualified opinion, which means that the statements fairly
14 and accurately present the results of the corporation's
15 financial operations for the year just passed, that we've
16 complied with laws and regulations, and that there are
17 adequate internal controls in place to protect the
18 corporation's asset.

19 This is, as I indicated, something that's become
20 kind of standard, that every year we get this kind of opinion
21 that -- Dave and his staff, particularly this year, with the

1 operation of the new accounting system, made the auditors'
2 job much easier.

3 Last year, there were some minor internal control-
4 type problems that the auditor reported in a management
5 letter. Generally, they're just minor things that didn't
6 have any major effect on the financial statements. Those
7 have been corrected this year, there is no management letter.

8

9 The auditor that we had this year was Burt Smith
10 and Company, and we had them for the last two years. They
11 were selected through a competitive process, and we had a
12 three-year contract, which is now over. We're going to go
13 through another competitive selection to screen and select a
14 new auditor for next year. Burt Smith will be one of the
15 competitors, I'm sure, but we tend not to select them again,
16 unless they come in at a very, very low price.

17 And that pretty much covers my presentation of the
18 audit report.

19 CHAIR ROGERS: Thank you, Mr. Koczur. Are there
20 any questions? Any comments from members of the committee or
21 board?

1 MR. ERLENBORN: A question. The auditor that you
2 mentioned who did the year-end audit, does that same audit
3 company provide the quarterly information?

4 MR. KOCZUR: I'm sorry? The --

5 MR. ERLENBORN: Quarterly information, or is it
6 just --

7 MR. KOCZUR: No, they just do the financial
8 statement audit at the end of the year. The other
9 information --

10 MR. RICHARDSON: That's correct. The quarterly or
11 monthly information, it is reported from my office.

12 MR. ERLENBORN: Through your office?

13 MR. RICHARDSON: Yes, sir.

14 MR. ERLENBORN: I see. And you've suggested that
15 the job of doing the annual audit will be left for bid again
16 --

17 MR. RICHARDSON: Yes, this spring.

18 MR. ERLENBORN: And you've suggested that it would
19 be unlikely the same auditor would be chosen?

20 MR. KOCZUR: Yes. When Ed was the IG, he
21 established an informal policy, and I think it's good to keep

1 that up, that -- of changing the auditor every few years.
2 And three years seems to be a natural cycle, and we're going
3 to continue that.

4 MR. ERLLENBORN: It's a very good policy and I'm
5 glad to hear that you have it, and it's being followed.

6 MS. BATTLE: I was also glad to hear that it was a
7 clean audit, and no management letter this year.

8 CHAIR ROGERS: I think we should congratulate David
9 and Len and others who are involved. John? That sounds like
10 a good year.

11 MR. EAKELEY: I'd also like to congratulate Mr.
12 Koczur on a remarkably succinct and successful debut as
13 acting inspector general.

14 MR. KOCZUR: Thank you.

15 CHAIR ROGERS: Thank you very much, Mr. Koczur.
16 Number four is review and adoption of the Fiscal Year 2001
17 operating budget for the corporation. We have an
18 appropriation. David Richardson's at the table.

19 And so, in -- attached to your agenda for the
20 finance committee is the report and attached to the report is
21 his proposed agenda. David -- or, proposed budget.

1 MR. RICHARDSON: And again, for the record, my name
2 is David Richardson, I'm the treasurer of the corporation.

3 There is a memo in your book, starting on page 65,
4 that goes through to page 68, that gives the key elements of
5 the budget. Of course, you passed a temporary operating
6 budget in September, and we did not have an appropriation.

7 We had estimated what our appropriation would be,
8 and since we now have that, we have our carry-over, we have
9 an estimate of revenues for the year for interest income, we
10 are coming to you with a proposed budget of \$333,100,226.

11 There is a breakdown of that, as far as all the
12 sources of funds that are available on page 69. And I will
13 go back through and explain some of the things that are in
14 the memo. But as far as the source of funds available, we
15 did receive an appropriation of \$333 million, and that was
16 subject to a recision. And that recision was .22 percent of
17 the total amount.

18 Last year there was a recision, we had an
19 opportunity to put 15 percent of that recision against one
20 budget line. This year we do not. The instructions from OMB
21 was that it was .22 percent on every line that was funded.

1 So you'll see on attachment A-69, that that works
2 out to a reduction of the basic field funding of \$682,00 from
3 grant funds of \$310 million, our technology initiative had a
4 recision of \$15,400 against a budget, or our original
5 appropriation of \$700,000.

6 Management and administration was \$10,800,000, with
7 a recision of \$23,760, and then the inspector general was
8 given a budget of \$2.2 million and a recision of 4640. So
9 it's purely a mathematical calculation at that point.

10 This also provides to you a breakdown of the
11 restricted revenues and the deferred revenues that we've had.
12 This all matches the audit report that was just presented to
13 you. The deferred revenue, the \$1.599 million was made up of
14 funds from the technology grant.

15 We have made the majority of those grants at this
16 point, from last years funding. There's a few outstanding
17 that I understand will be made very shortly, so all of that
18 money will be taken care of.

19 The U.S. Court of Veteran's Appeals, we had money
20 that is a -- for that particular program. There's an amount
21 of \$46,617 that was remaining from last year. You'll see

1 also that we have a new appropriation from the Court of
2 Veteran's Appeals of \$895,000. That funding was not subject
3 to recision, and we've confirmed that this week with the
4 court.

5 MS. BATTLE: David, do your sixes look like eights?
6 The number I have is \$46,817 for U.S. Court of Appeals.

7 MR. RICHARDSON: Yes, I'm sorry, it is. In
8 addition to that, we did have some carryover, as far as it
9 was designated or undesignated for specific programs. The
10 undesignated amount for grants -- the \$1,374 there -- is a
11 grant recovery that came in late in the year, so we're adding
12 that back to the grants from other funds available that will
13 help support special initiatives, emergencies, and to that
14 like. And that will be added to the \$54,380 there.

15 There was \$99,387 as far as designated funds that
16 were contracts and items that had already been -- their
17 services were not completely concluded, we were not billed
18 for them, but the contracting procedure had been completed.
19 So that money is set aside from 2001, is added that
20 particular office's budget for this year, so that those
21 initiatives will be completed.

1 MS. FAIRBANKS-WILLIAMS: Does that account for the
2 carry-over in the IG office and the consultant in the IG
3 office, independent accountants, or something?

4 MR. RICHARDSON: No, that is just money that was
5 not spent at year-end, and was not earmarked at year-end, so
6 that \$92,686 was money that was not spent during the year.
7 And of course, in the headquarters, we had \$758,568 that was
8 not spent. That rolls into this year's budget and helps
9 support this year's spending.

10 On page 70, there's a matrix of the proposed budget
11 that we have. And you'll see all the different elements of
12 the appropriation, the recision, the allocation of carry-
13 over, the Court of Veteran's Appeals and the adjustment, the
14 one adjustment fee, the interest from this year's revenue,
15 and it's broken out by appropriate line, or budget line that
16 we do use.

17 MS. FAIRBANKS-WILLIAMS: The other question I had
18 to ask was on increase in accrued vacation, and other
19 liabilities, how long can they accrue vacation?

20 MR. RICHARDSON: We have currently two vacation
21 pools. One was established in 1993. And when this board

1 came in, we suspended the use of accrued vacation, we were
2 counseled at that point that that money belonged to the
3 employees, and therefore was left in a pool.

4 Two years ago we went back to accrued vacation. In
5 that time period, it was a use-or-lose situation. What we do
6 have now is you can have up to 240 hours of vacation in the
7 pool.

8 Myself, for instance, I have, I think it's 200 --
9 it's over 240 hours. So this year, I'm accruing vacation,
10 but yet it will not be on the books, because I'm only vested
11 up to 240 hours. We do have a number of employees like that
12 who will not be paid, basically, the full amount of the
13 accrued vacation that they do have. Yes, sir?

14 MR. EAKELEY: Just to kind of read this coming down
15 to -- and trying to see how well we're doing in re-allocating
16 resources to meet the priorities articulated in the strategic
17 directions.

18 MR. RICHARDSON: Mm-hmm.

19 MR. EAKELEY: And I understand the congressional
20 suggestion that we hire seven compliance and enforcement
21 program officers, and also note that that is part of our

1 strategic directions, as well. And also, I was pleased to
2 see the additional hires projected for the office of
3 programs.

4 But I can't -- it's hard, once I get past those
5 particular factoids, to see where we're going, and it may not
6 matter, or we may not have a lot of discretion.

7 But I see that there are 10 full-time-equivalent
8 employees in finance and administration, and yet financial
9 and administrative services has a \$10,548,000 line. So
10 obviously, there's some -- a lot more than simply personnel
11 involved in that. Could you just address that for a moment,
12 David, please?

13 MR. RICHARDSON: Sure. As you say, there are 10
14 people in this particular budget. But the main part of the
15 budget is the rent for the building and facilities that we
16 use.

17 Also included in administration is the majority of
18 the cost of the supplies of paper, pencils, the corporate
19 insurance plans that we have, to include commercial
20 liability, directors and officers' liability --

21 MR. EAKELEY: I thought that was in legal affairs.

1 MR. RICHARDSON: No, sir, that is in
2 administration.

3 MR. EAKELEY: Oh, okay.

4 MR. RICHARDSON: That figure this year, by the way,
5 is \$72,000.

6 MS. FAIRBANKS-WILLIAMS: And is that -- does that
7 go to all the offices, like so much is allocated to the IG,
8 so much is allocated to administration, and so on, or does
9 just one category take it all?

10 MR. RICHARDSON: One category -- one office takes
11 it all, and that's the way we have continued for the budget
12 for the corporation.

13 You'll see, for instance, in the management and
14 administration, that the occupancy cost is \$1.345 million.
15 The rest of the offices, when you see, for instance, a board
16 of directors, we've got to pay for the use of these
17 facilities today, that's the meeting room cost. The
18 executive office has a very small amount.

19 Legal affairs has a small amount, but that's
20 because if they have to have a meeting outside the office
21 where they've got to have a hotel room to hold a mediation,

1 conference -- and we've had in the last couple of years --
2 that provides money for them.

3 Same thing with the -- when you look at the \$1,000
4 in compliance and enforcement. When they go out on a trip,
5 occasionally they will have to set aside a hotel room to have
6 a meeting with the people who are traveling to go over what
7 they have found, and whatever events that they need to go
8 back with, so it's, as you see, \$1,000 there. It's very
9 little, but it's just a matter of setting aside some money so
10 we have the resources to do that.

11 The rest of the administrative budget there was --
12 we do have one temporary employee now. Usually during the
13 summer we have a couple of interns that we bring in, so
14 there's the amount of \$32,000 there.

15 Consulting is \$4,000, and basically that money will
16 be spent this week, as we prepare to get the 1099s out to the
17 board, and to our different consultants, there is a changing
18 of the program that needs to occur each year, and our
19 consultants will come in and complete that. They're coming
20 Monday so that that money will then be spent so that we can
21 get the 1099s out and get the tax filings completed by the

1 end of January, get the 1099s out and then the other tax
2 filings next month.

3 MS. BATTLE: While we're on that issue of
4 consultants, do we have a policy about how we -- that's an
5 annual occurrence, I'm sure, that you're talking about, in
6 terms of getting the 1099's out. Do you have a policy, or
7 does the corporation have a policy as to how it goes about
8 obtaining professional services that are an annual event, or
9 those that are intermittent, do you know?

10 MR. RICHARDSON: This particular one, of course, is
11 ongoing. We do have purchasing policies that we do follow.
12 This particular money is money that is paid to the provider -
13 - the people that we purchased our financial system from.

14 We have looked at other providers of this type of
15 service, and we have found that this ends up being a sole
16 source contract, because the others don't have the expertise
17 with their system.

18 But as far as other contracting, we do have
19 procedures that are in place that we're currently reviewing.

20 Basically, we bid out contracts over \$10,000, except for
21 some service contracts that there is an ongoing nature with.

1 MS. BATTLE: Yes, I guess the question I have -- I
2 know about personal services, and I do understand sole
3 sourcing when you have specialized expertise that you're
4 looking for that you can only get effectively from one
5 source, as you mentioned, when you're getting that from the
6 people that provided you with the software, so therefore,
7 they've got specialized knowledge about how to provide what
8 you need on the system that you have.

9 Is there any policy that would address professional
10 services beyond that kind of sole source? I guess that's
11 what you're saying, is under review?

12 MR. RICHARDSON: Right. Our current system
13 provides anything over \$10,000 for the purchases of equipment
14 and furniture to be bid out to three bidders. We usually to
15 to the GSA contract, or if, for instance, we have furniture,
16 we would normally contact the supplier that we've used in the
17 past, a couple of those, and ask them to come in with a bid
18 on the different materials.

19 We're getting ready to do some construction in the
20 facility. With the new hiring of new personnel, we've had to
21 basically have a reading room instead of the full library

1 that we've had in the past. We went to the building
2 management, and they have provided us a name of someone who
3 will do that construction, and I think that was, like,
4 \$15,000.

5 So, we have sources that go to to get the bidders
6 that we're using, most of the time.

7 MS. BATTLE: Sure. I guess my question goes more
8 to the policy rather than the procedure, and whether or not
9 we have a policy in place that would address the particular
10 issue that I raised.

11 I'm sorry, did you hear the last statement? Okay,
12 all right, I'll try to speak into the mic.

13 MR. RICHARDSON: There is currently a policy in
14 place, and as I said earlier, we are looking at it, reviewing
15 it further.

16 All of our policies under review, many of them have
17 not been updated since some in the late eighties, some in the
18 early nineties. So we are looking at those at this point to
19 revise and update them, and get them more in tune to the way
20 we are operating and make sure that we're following good
21 guidance.

1 MR. EAKELEY: Is that something that goes to ops
2 and regs, or this committee?

3 MR. RICHARDSON: That is something that has never
4 come to the board. Those are usually procedures that are
5 reviewed on the management level. The administrative manual
6 has never come to the board, to my knowledge. Only the
7 personnel manual.

8 MS. BATTLE: Madame Chairperson, I think -- I don't
9 know which committee it should go to, but I think a policy of
10 that nature is something that should be reviewed at some
11 level by the board, because it does set a standard that would
12 allow for the board to at least have an understanding as to
13 how those particular measures are being addressed.

14 So I would urge, if there is some sort of review
15 that's being undertaken right now, that that review get
16 placed on the appropriate agenda for review by some committee
17 of the board, so that the board can ultimately approve how we
18 handle that particular piece.

19 CHAIR ROGERS: So the proposal is -- and I wonder
20 if there is some discussion -- is it a motion?

21 MS. BATTLE: Yes, I'd like to -- I guess I could

1 move that. It's come up because we've got a whole array of
2 consulting services in all the various different places, and
3 my question relates to what our underlying policy is as to
4 how we address it. So --

5 MR. EAKELEY: I don't think we need a motion, but I
6 think -- I don't know, I don't want to say there's a
7 consensus when none has been expressed, but it seems to me
8 that if the administrative manual has never been reviewed by
9 the board, or come up to the board, it might make sense for
10 the board to take a look at it and for management to use the
11 board as a sounding board, as it were, in this area, at least
12 once.

13 And consequently, I would just suggest, if there is
14 no opposition, that we just ask David to come back, or John,
15 or whatever, just with a report on where that is at the next
16 meeting, or interact with the finance committee chair, and
17 then decide how to go from there.

18 MS. BATTLE: Well, I guess what I'm saying is the
19 actual policy, whatever it is, I think needs to be adopted by
20 the board, so it does need to be ferreted out to someone, and
21 I don't know where the most appropriate place would be.

1 CHAIR ROGERS: For a careful examination?

2 MS. BATTLE: Yes.

3 MR. EAKELEY: Well, we'll have to see whether we
4 need to do it, but I certainly -- some oversight would be not
5 only appropriate, but welcome.

6 MS. BATTLE: It's --

7 MS. MERCADO: Madame Chair, I know that when we
8 were setting up the audit appropriation guidelines in the
9 book, that was several years ago, and prepared both by
10 management and the IG, that one of the policies that was in
11 there was dealing with the issue of contracting with
12 independent contractors.

13 And I thought, or at least in my memory I
14 remembered that we usually bid out, you know, at least three
15 bidders, and I guess whoever the lowest bidder is, or -- I
16 guess has a -- they may not be the lowest bidder, it may be
17 for other factors. I think one of the things that the OIG
18 looked at was whether it was a minority contractor in one
19 particular aspect, I think, if I recall, especially in the
20 auditing services.

21 So, we have discussed it, I know, in the finance

1 committee before. And it was dealing with the issue of
2 consulting, because there were some carry-overs that I
3 recollect. I think it was the Cotton Report, and there was a
4 question about whether or not those were bid out, and who the
5 lowest bidder was, and whether or not they were the best
6 appropriation.

7 So we dealt with it, and it was incorporated in the
8 guidelines. But the question is, do we review that or
9 formally review it, as a committee, I guess, or as a board?

10 CHAIR ROGERS: Well, I think I hear sentiment or at
11 least our board chair thinks that he hears sentiment -- and
12 you should correct him if he's wrong -- that this ought to be
13 referred to a committee, that the policies ought to be
14 referred to a committee, and then considered by the board.

15 So, I guess I should ask you, Mr. Chair, what
16 committee you would refer this to?

17 MR. EAKELEY: I defer, and refer to the chair of
18 the finance committee.

19 CHAIR ROGERS: All right, we accept. John?

20 MR. MCKAY: Thank you, Madame Chair, just
21 indicating that we'd be very happy to pull together the

1 materials that we have and to summarize the current policies
2 that we're acting on, as well as update you.

3 There are some specific contracts that are under
4 review, and that we will present those to the board as you
5 wish. And in particular, I'm hearing here, at finance. So
6 we will prepare a report for the next board meeting for your
7 review.

8 MS. BATTLE: The only thing, from what you said,
9 that you're -- when you say you're acting on, do you mean the
10 ones that you're traveling under now? Because I understand
11 that they're under review, and what I would like to see is
12 before a final decision is made in that review, that the
13 board have an opportunity for input.

14 MR. MCKAY: Well, I'm not sure what you mean by
15 that.

16 MS. BATTLE: Do you --

17 MR. MCKAY: I mean, the policies -- excuse me --
18 but I mean, we have been engaging in consulting contracts for
19 quite some time. Most of them are personal service-type
20 contracts, I think, at all levels, including the inspector
21 general's office. Some are ongoing, some are on as-billed

1 basis.

2 So I would not want to make the statement to the
3 board that we wouldn't engage in consulting services until
4 the next meeting. We have ongoing consulting arrangements
5 across the corporation, as you can see in the line items.

6 MR. EAKELEY: But we also -- just for further
7 clarification -- we will be entertaining the proposal, or at
8 least a briefing and proposal tomorrow, with respect to a
9 specific contract, and we will have the ability to decide
10 what to do about that contract at that time.

11 MR. MCKAY: Absolutely, and that contract is --
12 and we're talking about the performance measures issue -- is
13 being presented to the board tomorrow.

14 But I'm concerned, LaVeeda, because there are a
15 number of ongoing contracts. For example, our state planning
16 consultants, as I understand it, would be within the purview
17 of your comments.

18 MS. BATTLE: Yes, let me see if I can make it
19 clear.

20 MR. MCKAY: Okay.

21 MS. BATTLE: What I'm saying is I know that you

1 have a policy right now that you're operating under, and I
2 understand that. And you're examining it to see whether it
3 needs to stay as it is, or whether it needs to change.

4 While it is as it is, you continue to operate under
5 it. But before it changes to something else, that is what I
6 am requesting, that the board have an opportunity to review
7 so when that change is made, we are involved in the process.

8 MR. MCKAY: Absolutely, and thank you for the
9 clarification.

10 CHAIR ROGERS: I wonder, though, whether -- if --
11 this is a \$1.4 million item, so it is a big part of the
12 budget. Were the decision made before the next board meeting
13 to tighten up the consulting policies, I'm not sure I would
14 want to delay the implementation of that until the next board
15 meeting.

16 On the other hand, if the decision were made --
17 and I can't imagine it would be -- to loosen them up, then I
18 would want to consider it.

19 So I guess I'm throwing that out, I'm not sure what
20 direction that takes us, but maybe throw it out and see if
21 someone else has an idea.

1 MR. EAKELEY: Well, my understanding is that the
2 one large -- I don't even -- is it a consulting contract,
3 John, or is it a procurement for consulting services and
4 software?

5 MR. MCKAY: I think it's more accurately a
6 consulting contract.

7 MR. EAKELEY: But I think the one -- correct me if
8 I'm wrong, but -- or, I'll look at Jim and David on this,
9 too, Jim Hogan and David Richardson -- but there is one large
10 contract under consideration that will be presented to the
11 board tomorrow;

12 MR. MCKAY: Yes.

13 MR. EAKELEY: But there is not anything else on the
14 horizon between now and the next board meeting that would
15 fall into the category of tightening up or loosening up on
16 consulting. Or, is --

17 MR. MCKAY: No, I think what I heard LaVeeda say is
18 that we would continue -- other than the major contract
19 that's before the board tomorrow, that before we made any
20 change, we would bring that to the board in the policy.

21 And I guess further, I would just suggest that if

1 there were an interpretation of the policy that were to be
2 made between now and then, that I ought to just share that
3 with Nancy in the interim between now and the next board
4 meeting, so there's no misunderstanding, and then seek the
5 guidance of the chair of this committee and then prepare a
6 full report on our consulting line and policies and committee
7 at the next board meeting.

8 MS. BATTLE: That would work.

9 CHAIR ROGERS: So I think we, as the committee,
10 have just received a referral from the chair, in general, to
11 review any changes in the policy, perhaps at our next -- and
12 also to receive a report and review the current policies at
13 our next finance committee meeting, in connection with the
14 next board meeting.

15 Is there anything further on that point? We have -
16 -

17 MS. MERCADO: Madam Chair?

18 CHAIR ROGERS: Mm-hmm?

19 MS. MERCADO: Okay. I just had a question for Mr.
20 Richardson, because I wasn't real clear on this paragraph on
21 page 66. The bullet point that deals with the 3 program

1 performance staff members, basically talking about specific
2 items that you're pointing out, that it's going to require a
3 total of \$803,992 added to the program performance office
4 because of these three additional people with these projects.

5 And I guess I was just a little curious as to how
6 that much money -- maybe I'm not seeing exactly how that
7 works. I mean, are you having other individuals,
8 consultants, travel, what? Because it talks about three
9 program performance staff members added, but yet the budget
10 line is \$803,000. And I wasn't real clear as to how that
11 would be spent.

12 MR. RICHARDSON: Okay. There are three additional
13 staff members, as you state, but there's also the other
14 initiatives here, the gender in leadership initiative is two
15 items that Ms. Youells spoke to you about earlier. We have
16 set aside \$100,000 for those two particular studies. There
17 will be some travel involved, there will also be some
18 consultants brought in to help review the different
19 information that's gathered, and come back with some
20 recommendations.

21 Also, performance measures, you're going to have a

1 presentation tomorrow in regards to a program that is being
2 proposed, and there is travel involved there, there is three
3 states that are being used to gather case service
4 information, matters that the programs are handling. So,
5 there's not only consulting work here, but there's also some
6 travel.

7 So when that program was originally adopted, we
8 looked and said, "Okay, we're going to need some additional
9 travel costs for consulting, for staff, and the additional
10 consulting."

11 It's -- the \$800,000 is the amount that we added
12 from the temporary budget, and it goes into all these
13 particular initiatives. Just the three staff were also
14 included in it.

15 MS. MERCADO: Well, let me tell you what my other
16 point is coming to.

17 MR. RICHARDSON: Okay.

18 MS. MERCADO: The state planning initiative -- and
19 I'm not sure exactly what it would encompass, and you may
20 tell me -- but part of what I was hearing this morning, and I
21 think that we have heard in other board meetings when we've

1 gone out to the field, to the grantees, is that while
2 Congress and Legal Services, thorough program letters and
3 regulations, have talked about state planning initiatives and
4 creating a more effective delivery of legal services, that by
5 its very nature it has required an additional amount of work
6 from those state grantees, local grantees to do.

7 And so just my curiosity is, in the state planning
8 initiatives, does that include money that goes to the
9 grantees for that additional expense that they're incurring,
10 or is it for something different that only deals with M&A?
11 I'm not real clear on that.

12 MR. RICHARDSON: The money is going to
13 facilitators, people who are helping in the states of --
14 people who are hired by the corporation to help with a
15 particular state to figure out the best configuration.

16 MS. MERCADO: So there would be some providing some
17 assistance to those states in the state planning? I mean,
18 some additional resources and staff people?

19 MR. RICHARDSON: That's correct.

20 MS. FAIRBANKS-WILLIAMS: On a, like, a consulting
21 basis?

1 MR. RICHARDSON: That's correct.

2 MR. EAKELEY: Like the presenter we saw today in
3 the second section, Joe Dailing.

4 MS. MERCADO: Joe?

5 CHAIR ROGERS: Okay, I think that Randi Youells is
6 coming to the table -- welcome, Randi -- to respond in a
7 little more detail on the state planning and possible funds.

8 MS. YOUELLS: I have to be honest, Maria, I wasn't
9 paying a lot of attention. Could you rephrase your question,
10 and I'll try this time -- I was dosing out.

11 CHAIR ROGERS: Refreshing honesty.

12 MS. MERCADO: Okay. No, it's just that when I read
13 this paragraph, it stood out in my mind, because I guess the
14 introducer is that there is three people that are going to be
15 hired, and yet we have a budget line of \$803,000 with these
16 projects that are going to be done, I assume, by these
17 people.

18 And I just couldn't figure it out, how that money
19 was going to be spent with those three additional folks, and
20 what they were going to be doing. And so I wanted some sort
21 of a breakdown into exactly what that meant.

1 But in particular, in the state planning
2 initiatives, whether that actually meant assisting the states
3 with additional staff and resources to do the state planning
4 that's necessary, because we are adding to the already heavy
5 load that they have. And so I just wanted to know whether,
6 in fact, that included some of that.

7 MS. YOUELLS: You actually asked two questions, so
8 --

9 MS. MERCADO: Yes, I did.

10 MS. YOUELLS: -- let me try and take them in order.

11

12 The first answer that I will give is very similar
13 to what David gave. When you look at the amount that's shown
14 here, it is -- would be inaccurate to associate those costs
15 with the addition of the three staff.

16 So the three staff you are -- we are adding,
17 actually, two people to OPP Main -- when I talked this
18 morning about OPP Main -- we are adding one additional person
19 at this time to OPP State Planning, and we are going to fill
20 Carolyn Worrell's slot and assign that to the team.

21 So we are adding a total of three staff to OPP to

1 do all of the functions that I talked about this morning.

2 We are also, as I talked this morning, rolling out
3 several major initiatives that have costs associated with
4 those initiatives. So for example, the leadership
5 initiative, which I discussed this morning, would be to
6 create a leadership institute, or some sort of program, that
7 would be used by the field to train, largely, women and
8 people who are racial minorities to become leaders within the
9 legal services movement. And we have \$50,000 budgeted for
10 that initiative.

11 Similarly, as we roll out a gender task force,
12 there are going to be costs associated with that task force.

13 As David mentioned, travel costs, we'll probably want to
14 hire a researcher to gather some data and statistics, so
15 that's there.

16 Then there is approximately, I think, \$300,000 that
17 has been put in that line item -- \$300,000, \$350,000 -- for
18 the performance measure project that I discussed today, the
19 replacement of the CSR program. That's in that line item, and
20 we'll be discussing that in more detail tomorrow.

21 So that would be my first answer, Maria. My second

1 answer is that you're absolutely correct. One of the things
2 we've had the most success with in the last year is the
3 ability to give technical assistance grants to states and to
4 our grantees to help them with the costs associated with
5 state planning.

6 And in fact, we do have some dollars that are
7 allocated for those types of consulting costs, to help states
8 who are bearing those extra expenses as a result of our
9 efforts, to underwrite those expenses.

10 When I had a meeting earlier this week with David
11 and with Jim Hogan, I discussed the fact that that line item
12 probably needs to be increased at some point.

13 We're certainly going to see in the OPP slots --
14 we're not going to see those filled immediately, it's going
15 to be hard to fill some of those slots in a time of
16 transition -- so we're going to actually have some savings
17 that we accrue as those slots are not filled.

18 So I was suggesting that, as those become real
19 numbers down the line, that those be reallocated to technical
20 assistance and to help support costs associated with state
21 planning.

1 I agree with you. One of the things that I have
2 learned as a result of my involvement with state planning
3 since 1998 is that although the benefits are tremendous, the
4 costs are real.

5 And this year, we figure that we will have at least
6 12 states in which there will be active mergers. And when
7 you engage in active mergers, you are going to have costs
8 associated with bringing in consultants to help with those
9 mergers, bringing in consultants to help with some of the
10 legal questions associated with those mergers, and perhaps
11 even at some point, some morale, some work that needs to be
12 done to help people adopt new cultures in an organization.

13 We're conscious of that, and it's something that we
14 have been urged by our grantees to plug in more dollars for,
15 and we're watching that.

16 MS. MERCADO: Okay. Well, and one of the things
17 that I wouldn't want to see overlooked is that while we bring
18 in a lot of consultants, still the big bulk of the work in
19 these states is being done by the stakeholders in those
20 states. I mean, in particular I'm thinking about the
21 grantees themselves.

1 And I think that was sort of more the side that I
2 was a little bit more concerned about, that we're already
3 asking over-tasked people to do this additional work, and so
4 what, if anything, is being done to assist them in there?

5 I understand we bring consultants, but --

6 MS. YOUELLS: Well, we've given -- we have given a
7 lot consulting contracts in the last two years, that -- two
8 states who actually have allowed them to hire staff to handle
9 some of these tasks.

10 So, for example, grants have been made to states
11 who have then hired their own consultant to provide some sort
12 of service to the state through the state planning activity.

13

14 So it's -- when we talk about consultants, I guess
15 I can see where you get somewhat confused, because it is
16 confusing. We have consultants who work for LSC, that assist
17 us with our state planning initiative.

18 We also, LSC, also has a pattern in practice of
19 freeing up dollars, giving those dollars out to states so
20 that they can hire consultants to take care of some of those
21 tasks that occur as a result of what's going on in their

1 program.

2 I think that I -- it would be great if we had all
3 of the budget of LSC allocated to that. You know, I'd take
4 the entire budget of LSC and allocate it to state planning,
5 if someone would give it to me. The reality is that's not
6 going to happen, so we're never really going to have the
7 money that we need to underwrite all of the costs.

8 MS. MERCADO: It hasn't happened to all the states,
9 necessarily, right? I mean, it's sort of depending on what
10 they had in their own state.

11 MS. YOUELLS: Oh, absolutely. State planning in
12 person and situation-specific, and there are certain states,
13 like Ohio, where the Ohio Legal Assistance Foundation did
14 have resources, and they were able to contribute additional
15 resources to state planning. Michigan has done that.

16 Then there are other states, as we heard today in
17 Alabama, where they are very dependent on federal funds, they
18 don't have those dollars available, and it is important that
19 LSC try to find ways to make those dollars available to them,
20 or help them write grants to other foundations or other
21 organizations. So it is -- we are acutely aware of the fact

1 that it's a very costly endeavor.

2 MS. MERCADO: Okay.

3 CHAIR ROGERS: Thanks, Randi.

4 MS. MERCADO: Good, thank you.

5 CHAIR ROGERS: Any other discussion, before we take
6 up the resolution, which is on page 72?

7 (No response.)

8 M O T I O N

9 CHAIR ROGERS: Is there anyone who would like to
10 move a recommendation that the board adopt the resolution
11 which is number 2001-001, to adopt the Legal Services
12 Corporation's consolidated operating budget for Fiscal Year
13 2001?

14 MS. BATTLE: I would so move.

15 MR. EAKELEY: Second.

16 CHAIR ROGERS: All those in favor?

17 (Chorus of ayes.)

18 CHAIR ROGERS: Opposed?

19 (No response.)

20 CHAIR ROGERS: The motion carries. We have a
21 report, I think, David, on the expenditures?

1 MR. RICHARDSON: Actually, the report in your book
2 is made on the temporary operating budget that was in effect
3 as of November. And at that point, we had only spent about
4 13 percent of the budget. We are now adding to that budget.

5 I have brought with me, which I'll make available
6 at the end of this meeting, the expenses through December,
7 and it will give you a better shot as to where -- a better
8 look at where we stand right now within the budget.

9 Everything that is in the budget is all the
10 expenses that have been paid to date, are well within the
11 guidelines that we have, we're basically 25 percent through
12 the year, and I don't recall the exact percent, but we're
13 well under that for the spending through December.

14 And if you need any additional information -- I
15 know you have not had time to look at that, it was just
16 completed this week, with the closing of January, but of
17 course -- or, excuse me, the closing of December -- but
18 because of getting the information to you and the board book,
19 it could not be put into the board book prior to the
20 dissemination, but I'll make that information available to
21 you at the end of this meeting.

1 CHAIR ROGERS: And that will be available at the
2 end of the meeting today? I'm sorry --

3 MR. RICHARDSON: Today, yes.

4 CHAIR ROGERS: Okay, so that we could review it
5 before the board meeting tomorrow.

6 MS. FAIRBANKS-WILLIAMS: The other question that I
7 was going to ask, there's been some court cases that the IGA
8 has had and so on and so forth. Have we made any recovery
9 from any of these that would go back into the ledgers?

10 MR. RICHARDSON: Actually, when you look at
11 December, we have reflected some monies that were recovered
12 from our insurance carrier, because we've paid out attorneys
13 fees. And we have collected, to date, \$32,000, which will go
14 back into the legal affairs budget.

15 CHAIR ROGERS: Anything further?

16 (No response.)

17 CHAIR ROGERS: Thank you very much. Any other
18 business?

19 (No response.)

20 CHAIR ROGERS: Any public comment?

21 (No response.)

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M O T I O N

CHAIR ROGERS: Any motion to adjourn?

MS. BATTLE: So moved. I move we adjourn.

MR. EAKELEY: Second.

CHAIR ROGERS: All right, we stand adjourned.

MR. EAKELEY: Five-minute break, and then reviews
committee.

(Whereupon, at 4:49 p.m., the meeting was
adjourned.)

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