

LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

FINANCE COMMITTEE

Friday, January 27, 2006
11:29 a.m.

The Melrose Hotel
2430 Pennsylvania Avenue, N.W.
Washington, D.C.

COMMITTEE MEMBERS PRESENT:

Michael D. McKay, Chairman
Thomas Fuentes
Herbert S. Garten
Florentino A. Subia
Frank Strickland, *ex officio*

BOARD MEMBERS PRESENT

Lillian R. BeVier, Vice Chairman
David Hall
Thomas R. Meites
Bernice Phillips
Florentino A. Subia
Ernestine P. Watlington (by phone)

STAFF AND PUBLIC PRESENT:

Helaine Barnett, LSC President
Charles Jeffress, LSC Chief Administrative Officer
Luis Jaramillo, LSC Acting Special Counsel
Ronald Merryman, LSC OIG
David Meldor, LSC OIG
Laurie Tarantowicz, LSC OIG
Mattie Condray, LSC Senior Assistant General Counsel
Lynn Bolan, LSC Senior Assistant General Counsel
Treefa Aziz, LSC Government Affairs Representative
Victor M. Fortuno, LSC Vice President for Legal Affairs
Alice Dickerson, LSC H.R.
Karen Dozier, LSC Executive Assistant to the President
Michael Genz, LSC Director, Office of Program Perf.

(Continued)

STAFF AND PUBLIC PRESENT: (continued)

Tom Polgar, LSC Director, Ofc. of Govt. Rel.
Sarah Singleton, LSC Board of Directors Nominee
Kirt West, LSC Inspector General
Demille James, LSC
Patricia Batie, LSC
Julie K. Clarke, NLADA
Linda Perle, CLASP
Charles T. Lester, Jr., Sutherland, Asbill & Brennan
Brooke Meling, ABA
Julie Strandlie, ABA
Michael Lenn, House Judiciary
Bob Henderson, LAW

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P R O C E E D I N G S

(11:29 a.m.)

1
2
3 CHAIRMAN MCKAY: Since we're starting a little
4 late, I thought we'd get moving as soon as we could so that
5 we could finish on time for the next important item on the
6 agenda, which is lunch.

7 So, I'll call the Finance Committee meeting to
8 order, and we'll address the first item on the agenda, which
9 is approval of the agenda.

M O T I O N

10
11 A PARTICIPANT: So moved.

12 CHAIRMAN MCKAY: Second?

13 A PARTICIPANT: Second.

14 CHAIRMAN MCKAY: All those in favor?

15 (Chorus of ayes.)

16 CHAIRMAN MCKAY: Opposed?

17 (No response.)

18 CHAIRMAN MCKAY: The agenda is approved.

M O T I O N

19
20 CHAIRMAN MCKAY: The second item is approval of the
21 minutes of the October 28, 2005, meeting.

1 Any comments or corrections?

2 A PARTICIPANT: Move to approve.

3 CHAIRMAN MCKAY: Second?

4 A PARTICIPANT: Second.

5 CHAIRMAN MCKAY: All those in favor?

6 (Chorus of ayes.)

7 CHAIRMAN MCKAY: Opposed?

8 (No response.)

9 CHAIRMAN MCKAY: Minutes are approved.

10 Next item on the agenda requires the presence of
11 our IG, Mr. West, and he's not here. With the approval of
12 the committee, we'll move on to number 4, and when -- Kirt
13 West -- and Mr. Polgar, we'll need, as well.

14 Thank you.

15 (Pause.)

16 CHAIRMAN MCKAY: Kirt, the item on the agenda is
17 the financial audit.

18 Could you address the committee on the financial
19 audit for fiscal year 2005?

20 MR. WEST: The status is it has not yet been
21 issued.

1 CHAIRMAN MCKAY: Identify for the record who you
2 are.

3 MR. WEST: Kirt West, Inspector General.

4 I can give you sort of a broad overview of it.

5 They're waiting on -- before they can issue the
6 draft report, they're waiting on one statement from a law
7 firm that's providing representation in one of our cases,
8 just to close it out, but it's basically a good news story.

9 It's going to be a --

10 CHAIRMAN MCKAY: Can I stop you for a second?
11 Could you take a step back, since some of us are new on the
12 committee, and just briefly tell us what it is and who's
13 doing it?

14 MR. WEST: I'm sorry.

15 CHAIRMAN MCKAY: You flatter us by thinking we
16 know.

17 MR. WEST: What happens is, on an annual basis,
18 there is a financial statement done for the corporation, and
19 what has happened is the IG contracts with a independent
20 public accounting firm to come in and actually do the audit.

21 We oversee the audit, but the auditors come in from

1 the outside.

2 They meet with the treasurer, and documents
3 are secured by them.

4 They look at the record.

5 They look at the support.

6 Then they issue a draft audit opinion, and then
7 they comment on any kind of issues they might find, and so,
8 the -- we're using a firm called Oppenheim.

9 It's the -- we're in an option year in the
10 contract, and we'll probably go out next year and re-bid it,
11 just on the basis that, sort of in the Sarbanes-Oxley world,
12 the recommendation is you need to change auditors every so
13 often, so there's not -- the familiarity can sometimes be an
14 obstacle to effective auditing.

15 And so, they have come in. They've done the field
16 work.

17 They've talked to Dave Richardson.

18 One of my staff, who is a financial auditor, has
19 worked with them.

20 They've secured the information, and they've
21 reviewed all the corporation's financial records, support

1 for -- including things like inventory, record keeping. You
2 know, they look through checks. So, it's a pretty thorough
3 financial statement audit, and the draft opinion, as I've
4 been told, is going to be -- going to have some very minor
5 observations, but they first need this last letter from the
6 law firm, because they have to look at all potential
7 liabilities, and so, that -- you know, when you get the
8 financial statement, you'll see a lot of footnotes, and
9 they'll record, you know, liabilities, because if somebody
10 has a lawsuit against the corporation, they have to budget
11 for what that might potentially cost.

12 The change from previous years -- in previous
13 years, the Friends of Legal Services Corporation was listed
14 as a component of LSC.

15 That is changing this year, they'll be listed as a
16 related party, and the reason for that change is because
17 Friends of Legal Services has taken certain steps to make
18 itself independent of LSC.

19 The steps included hiring a part-time staff person,
20 having their own separate space in the building, as well as a
21 contribution that they made during that fiscal year to an

1 outside organization in fulfillment of the Friends charter.

2 So, that's a change.

3 They're going to issue a management letter, which
4 is, I would call or characterize as sort of housekeeping
5 issues, things like you need to have a little better
6 inventory system, increase your level of capitalization,
7 because you're getting into too fine of detail, and I've
8 talked to Charles about it. It's things like -- they're all
9 good improvements, but it's really a very minor thing.

10 It would be different if they had a reportable
11 condition, then we'd all in this room have something to be
12 concerned about, but it's not, so it's -- essentially, it's
13 going to be a good opinion. You know, the corporation's
14 records are sound, and they need to make a couple little
15 adjustments in terms of how things are -- you know, tracking
16 inventory and things like that.

17 CHAIRMAN MCKAY: When do you expect a written
18 document to be produced?

19 MR. WEST: The draft will be issued as soon as they
20 receive this letter from the law firm and clear out that last
21 thing. When I put this on the agenda, I was hopeful we'd

1 have a draft report by now, but we -- so, I would hope early
2 February, and then it's given to the corporation, and they
3 respond to the draft report, and the final report will be
4 issued.

5 CHAIRMAN MCKAY: Do you expect we'll have a final
6 report before our next board meeting?

7 MR. WEST: Yes, I do.

8 CHAIRMAN MCKAY: And that will be an item we'll
9 discuss, we'll have on our agenda at the next board meeting?

10 MR. WEST: Yes. And I will see that everybody on
11 the finance committee receives the report in its totality, so
12 you have a chance to look at it, and I will also provide you
13 the information, you know, the contact in my office, as well
14 as -- obviously, you can talk to Dave Richardson if you have
15 particular questions about -- and probably Dave is the one to
16 talk to first in terms of, you know, a particular line in the
17 audit, you know, what the report -- what it means.

18 CHAIRMAN MCKAY: Okay.

19 Great.

20 Thank you.

21 Any questions for Mr. West?

1 (No response.)

2 CHAIRMAN MCKAY: Thank you.

3 Next item on the agenda is the final fiscal year
4 2006 appropriations. I think we're going to hear from Mr.
5 Polgar.

6 MR. POLGAR: Good morning, everyone. For the
7 record, my name is Tom Polgar, and I'm director of government
8 relations and public affairs.

9 There is a table on page 13 of the board book which
10 compares the '05 budget and the final '06 budget. In short,
11 we started -- in '05, we had 330.8 million total.

12 Although the House passed the -- basically a flat
13 budget and the Senate proposed a \$34 million increase to
14 raise us to 358 million -- excuse me -- a \$28 million
15 increase -- in conference, the House receded to the Senate,
16 and then the -- excuse me -- the Senate receded to the House,
17 and then, on top of that, they imposed a quarter-of-a-percent
18 across-the-board cut on the entire bill in every account.

19 So, we came out of the conference with a minor
20 reduction.

21 Then, about a month-and-a-half later, when they

1 were finishing up the defense appropriations bill, they put
2 in a 1-percent across-the-board cut on virtually all
3 government accounts, partly to pay for a \$17 billion Katrina
4 supplemental, and so, we ended up with -- 1.28 percent below
5 the FY '05 levels. So, basically, the total LSC budget and
6 all the components thereof, the basic field line, the census
7 adjustment line, TIG, and so forth, are all at the '05 level,
8 minus 1.28 percent, and all those totals are on the chart,
9 and I'll be happy to take any questions.

10 CHAIRMAN MCKAY: So, to summarize, it looked like
11 we were going to get the same appropriation as we received
12 last year, well below what we requested, and then, because
13 of -- go ahead.

14 Was that incorrect?

15 MR. POLGAR: No, no.

16 CHAIRMAN MCKAY: Great. And then, because of
17 certain negotiations relating to budgetary pressures, we
18 received a 1.28-percent reduction.

19 MR. POLGAR: That's essentially correct, yes.

20 CHAIRMAN MCKAY: Any questions from the committee,
21 or anyone here, for Mr. Polgar?

1 (No response.)

2 CHAIRMAN MCKAY: Thanks a lot.

3 Next item on the agenda is considering and acting
4 on the adoption of a consolidated operating budget for fiscal
5 year 2006, and we're going to hear from Mr. Jeffress and Mr.
6 Richardson.

7 MR. JEFFRESS: Thank you, Mr. Chairman, members of
8 the board.

9 The consolidated operating budget, as you know, we
10 have to adopt every year --

11 CHAIRMAN MCKAY: Could you, for the record, tell us
12 who you are?

13 MR. JEFFRESS: I'm sorry. Thank you. Charles
14 Jeffress, chief administrative officer for Legal Services
15 Corporation, and assisting me is the treasurer of the
16 corporation, David Richardson.

17 Congress, as Tom just reported, passed the final
18 appropriations bill. So, there are some modifications
19 necessary in the temporary operating budget which the board
20 adopted in July and then modified in October.

21 So, what's coming to you today is, in fact, our

1 final -- what we call consolidated operating budget -- for
2 fiscal year 2006.

3 The memo describing what's in the budget starts on
4 page 14 in your board book, if you are looking for it.

5 In October, we told you that we would take the most
6 conservative of the possible outcomes from Congress in
7 preparing a temporary operating budget, which we did, and
8 while we didn't get what we had hoped to get from Congress,
9 it wasn't as bad as the most conservative option which we had
10 put in our temporary operating budget.

11 So, the final appropriations passed by Congress is
12 actually a little more money for the corporation than what we
13 had in our temporary operating budget.

14 So, the consolidated operating budget being
15 presented to you has a little more money in it than what the
16 temporary operating budget was that you adopted in October.

17 Mr. Chairman, perhaps I should go over the
18 attachments of the charts to make sure folks understand how
19 these charts are prepared -- I realize there are some new
20 members on this committee -- for us to be able to read these
21 charts.

1 MS. PHILLIPS: Mr. Chairman, I have a question.

2 Who is the treasurer? You?

3 MR. JEFFRESS: No, David Richardson is the
4 treasurer.

5 MS. PHILLIPS: Okay.

6 Do we hear from the treasurer or no, because in the
7 bylaws, I believe I read that, you know, the treasurer is
8 supposed to report to the board, or is that incorrect?

9 MR. JEFFRESS: Right. This includes the
10 treasurer's report.

11 The chief administrative officer was established
12 this past year, since the bylaws were written.

13 So, the treasurer, in fact, prepares this report
14 and gives it to me, which I transmit to the board.

15 So, it is, in fact, the report from the treasurer,
16 as transmitted through me.

17 CHAIRMAN MCKAY: Any other questions before he goes
18 on?

19 MR. MEITES: I detect that you were going to go on
20 to page 16 of the board book, but I don't understand page 14.

21 MR. JEFFRESS: All right.

1 MR. MEITES: So, why don't you start with page 14?

2 CHAIRMAN MCKAY: All right. We'll start with page
3 14.

4 Page 14 is the memo to the president outlining
5 what's in the budget.

6 Would you like me to talk about these columns here
7 on page 14?

8 MR. MEITES: Yeah, the chart.

9 MR. JEFFRESS: The chart?

10 MR. MEITES: Yes.

11 MR. JEFFRESS: Our budget -- our appropriations
12 from Congress do not come in specific line items. We don't
13 get money for OLA and for OPP. We get it in broad
14 categories.

15 So, the four broad categories there -- basic field
16 programs, technology initiatives, management and
17 administration, and Inspector General -- are the broad
18 categories.

19 There is a fifth category that -- this is the only
20 year that it's been here.

21 It's because when the Senate was working on their

1 appropriations bill, they did not add up the money.

2 The money that was in the total in the bill did not
3 match the sum of the subsections.

4 So, in preparing the temporary operating budget, we
5 had to show that \$400,000 as being a mystery and uncertain
6 exactly how Congress was going to resolve that.

7 So, that would hopefully not reappear, but we had
8 to do that this year because of the way the Senate budget was
9 written.

10 So, the first column, funding levels in the fiscal
11 year 2006 temporary operating budget, are what the board
12 adopted in October.

13 The fiscal year 2006 appropriation is what Tom
14 Polgar just reported on. That is what we received from
15 Congress.

16 The third column there, then, is just the
17 difference between what we anticipated in October and what
18 you all approved in October and what Congress actually
19 approved in the final appropriation.

20 MR. MEITES: Okay.

21 Thank you.

1 MS. PHILLIPS: The caption in the last column --

2 MR. JEFFRESS: Yes.

3 MS. PHILLIPS: It's confusing, because -- is it
4 supposed to read just decrease or increase and decrease?

5 MR. JEFFRESS: Anything in parentheses is a
6 decrease, and things not in parentheses represent an
7 increase.

8 So, the only decrease, which was what Congress
9 approved ended up being less than the temporary operating
10 budget, was in the Inspector General line item.

11 MS. PHILLIPS: So, Inspector General is a decrease.

12 MR. JEFFRESS: Right.

13 Congress approved \$32,000 less than what we had
14 anticipated in the temporary operating budget.

15 CHAIRMAN MCKAY: So, to summarize, the reason
16 we're -- the item on -- really, on the agenda here today is,
17 in October, we agreed to the first column.

18 MR. JEFFRESS: Correct.

19 CHAIRMAN MCKAY: The second column is what Congress
20 ultimately gave us.

21 MR. JEFFRESS: Correct.

1 CHAIRMAN MCKAY: The third column reflects that
2 we -- the difference, which is a little over \$2 million.

3 MR. JEFFRESS: The adjustments that we have to
4 make.

5 CHAIRMAN MCKAY: Indeed. And so, the charge today
6 is to approve a new budget which would incorporate that
7 additional \$2.2 million.

8 MR. JEFFRESS: That's correct.

9 CHAIRMAN MCKAY: Thank you.

10 Any other questions?

11 MR. JEFFRESS: One response to Ms. Phillips. The
12 Inspector General's offset, of course, wouldn't have happened
13 except for the across-the-board decrease. It was not because
14 we had misread the line item or something. When they did the
15 across-the-board decrease, it affected the bottom there.

16 Other questions before 16?

17 (No response.)

18 MR. JEFFRESS: Just to give an overview, again,
19 especially for members who have not been on the committee and
20 reviewed this carefully before, on page 16, you have a chart
21 that shows our proposed budget for 2006.

1 Our budget actually consists of three different
2 types of components.

3 Column one represents the appropriate from
4 Congress, and that is the same as you saw on page 14. That
5 is what Congress approved for us in October.

6 Column two represents monies unspent in last fiscal
7 year that we carry forward into this fiscal year.

8 So, there is unspent monies or carryover, if you
9 will, in each of the four basic legal assistance categories,
10 in management and administration, the loan repayment program,
11 and in the Inspector General's account. There was carryover
12 in each of those accounts.

13 The third column represents other funds to the
14 corporation, in addition to congressional appropriations and
15 carryover.

16 U.S. Court of Veterans Appeals funds, as this board
17 heard, I guess, a year ago, contracts with the corporation to
18 assist with appeals for veterans, and we, in turn, contract
19 with a consortium of pro bono attorneys for services.

20 Grants from other funds represents recoveries,
21 primarily where grantees have sold properties that LSC has an

1 interest in, and some of that -- proceeds from that sale come
2 back to LSC.

3 In management and administration, you see a
4 \$250,000 item there.

5 That's an estimate of the interest that we will
6 earn this year from our account, from the time we draw down
7 funds to the time we actually spend funds. So, those three
8 columns combined result in the total operating budget
9 available to the corporation for fiscal year 2006.

10 So, while Congress authorized, appropriated 326.5
11 million by adding carryover and other funds, our budget
12 actually will be 332.7 million.

13 MR. MEITES: Charles, how does that compare with
14 our total operating budget, final, for fiscal year 2005?

15 MR. JEFFRESS: It is slightly less.

16 David, do you have that number?

17 I have it, and I will -- give me one second to get
18 it to you.

19 Our fiscal year 2005 annual budget -- I'm sorry.
20 That's management and administration. I would have to add
21 all these together. I'm sorry.

1 So, the bottom of column four, 332.7 million, is
2 the money available to the corporation to budget for fiscal
3 year 2006.

4 The next page, 17, shows you how the management is
5 recommending that that money be distributed across the
6 offices and across the line items for each office for fiscal
7 year 2006.

8 I say "management recommends." Notice the final
9 column is the Inspector General's column. That, of course,
10 is provided by the Inspector General to us, is included in
11 this presentation to you. Management has not made any
12 changes in what has been submitted by the Inspector General,
13 but the -- each of the other offices and line items is
14 reflected there.

15 I will say to you the change in this from what you
16 saw in October, the additional money that we received for
17 Congress, went to the -- for the management and
18 administration accounts, at least -- now, for basic field, of
19 course it went to basic field, but for the management and
20 administration accounts, the additional money appropriated to
21 Congress went for outside legal counsel.

1 The Office of Legal Affairs office line item here
2 under "consulting" has been significantly increased since
3 fiscal year 2005.

4 The directors' and officers' liability insurance
5 for the corporation, when we put it out this year to solicit
6 bids, the best we were able to do increased our deductible
7 from \$50,000 per case to \$150,000 per case.

8 So, we had to provide in the budget for expected
9 additional expenses for legal defense.

10 CHAIRMAN MCKAY: And as I understand it, that
11 means, every time we hire a law firm, instead of paying
12 \$50,000 before insurance kicks in, we now have to pay
13 \$150,000 before insurance kicks in. Is that correct?

14 MR. JEFFRESS: That's correct.

15 Now, there are -- sometimes we hire outside firms
16 for things that are not covered by insurance, but for those
17 things covered by insurance, that's right. We now have to
18 pay 150,000 out of pocket before the insurance kicks in, on
19 each case.

20 MR. MEITES: Do our grantees know that when they
21 sue us it costs us 150,000 bucks every time we get sued?

1 MR. JEFFRESS: If they knew anything, they only
2 knew 50, but --

3 MR. MEITES: But from now on, every time they sue
4 us, it costs us \$150,000.

5 MR. JEFFRESS: At minimum.

6 MR. MEITES: Maybe they should call us up before
7 they sue us.

8 MS. BeVIER: I have something in the nature of a
9 completely trivial question, but it has to do with this item
10 for personnel compensation and --

11 MR. JEFFRESS: Yes.

12 MS. BeVIER: -- the board of directors is zero, and
13 what I'm curious about is the per diem that we receive and
14 whether that doesn't count as compensation or -- or, I mean,
15 you know --

16 MR. JEFFRESS: If we put it as compensation, you'd
17 be taxed on it, so we count it as --

18 MS. BeVIER: We're not taxed on it anyway?

19 MR. JEFFRESS: Not your travel expense
20 reimbursement.

21 MS. BeVIER: No, not the travel expense but \$320 we

1 get, you know, for a day.

2 MR. RICHARDSON: For a day. We consider you
3 consultants.

4 So, you get a consulting fee, attendance fee.

5 So, therefore, you get a 1099 for that.

6 MS. BeVIER: Right. Uncle Sam does consider it --

7 MR. JEFFRESS: I'm sorry. I misunderstood what you
8 were talking about.

9 I think of per diem as reimbursement for expenses,
10 but you're right.

11 MS. BeVIER: So, that's the only reason it's not
12 under the board thing.

13 I mean -- all right.

14 MR. JEFFRESS: Well, it's under consultants, under
15 board consultants.

16 MS. BeVIER: Yes.

17 All right.

18 MR. JEFFRESS: So, if any of you want to put on
19 your resume that you're a consultant to LSC.

20 MS. BeVIER: No, because then I'd have to pay the
21 business tax.

1 (Laughter.)

2 MR. JEFFRESS: Okay.

3 All right.

4 So, this page 17, then, reflects how we recommend
5 that the money be distributed across the offices and line
6 items within the management and administration accounts.

7 CHAIRMAN MCKAY: Could I impose on you or David to
8 briefly summarize the changes that you made that we would be
9 considering today, because I don't think they jump out at us.

10 MR. JEFFRESS: Right.

11 Let me ask David to.

12 MR. RICHARDSON: Okay.

13 We talked about the increases and decreases that
14 come as a result of the appropriations. There were \$73,000
15 increase from the temporary operating budget to the
16 consolidated operating budget for management and
17 administration which would affect page 17.

18 In addition to that, we had included \$1.8 million
19 for carryover and an additional \$53,000 for contracts that
20 were outstanding.

21 So, basically, we had included in carryover in the

1 temporary operating budget \$1,853,000. I had held aside,
2 because I knew that there was some bills coming in -- when we
3 did the temporary operating budget, I held aside about
4 \$15,000.

5 So, we paid seven -- so, there's an additional
6 \$7,000 that would add to the carryover.

7 So, this increase in management and administration
8 is basically \$82,000.

9 That money was put into the consulting line in
10 Legal Affairs to help underwrite some of the outside counsel
11 cost.

12 In addition to that, there was a decision made
13 during this October to now time period that there would only
14 be three issues of the magazine this year, and there would be
15 no annual report.

16 So, we moved 35,000 from the printing in the
17 Government Affairs budget and also put that into the
18 consulting line and Legal Affairs.

19 Additionally, we had set aside \$159,000 in the
20 contingency line.

21 We reduced that to 130, which is what the

1 contingency fund was for last year, and I moved that 29,000
2 also into the consulting line for litigation.

3 So, all the changes that are effective were that,
4 and all the decreases went into the consulting line for the
5 Legal Affairs outside counsel fund.

6 CHAIRMAN MCKAY: So, to summarize, as I understand
7 it, wherever you were able to obtain a savings or take a
8 carryover, to the extent possible, those savings were then
9 placed in that line which is -- consulting, which is really a
10 word for outside counsel, which reads \$369,898.

11 Is that correct?

12 MR. RICHARDSON: That is correct.

13 CHAIRMAN MCKAY: And that's really the budgetary
14 change that we're addressing today.

15 MR. RICHARDSON: Considering management and
16 administration, yes.

17 CHAIRMAN MCKAY: In that category, that's right.

18 MR. RICHARDSON: Yes.

19 CHAIRMAN MCKAY: Okay.

20 MR. RICHARDSON: In addition to that, we have, of
21 course, made the adjustments in the basic field line that is

1 detailed in the memo on page 14. We have increased the basic
2 field \$1.8 million. We've increased the technology line, and
3 we've eliminated the 400,000 in this adding error that was
4 made in the appropriation process, and then the IG and his
5 office has reallocated the money within their budget to take
6 care of the 32,000 less in their funding.

7 MR. JEFFRESS: So, our recommendation to you would
8 be that the board adopt the resolution on page 17A that
9 authorizes this budget for the fiscal year for the
10 corporation.

11 CHAIRMAN MCKAY: Questions or discussion?

12 MS. PHILLIPS: The technology grant -- it's over \$1
13 million for 2006 and 2005. Can that money be used for
14 something else?

15 MR. JEFFRESS: No. Congress has authorized it
16 specifically for technology initiative grants, so it must be
17 used for that.

18 MR. RICHARDSON: And you will see -- we're going to
19 hand out in a few minutes the December report, and between
20 October and the end of December, we have contracted and
21 awarded \$1,013,000 of the technology grants and have awarded

1 those to the field.

2 MR. JEFFRESS: But in terms of the line items, we
3 actually can't transfer between any of these line items.

4 So, management and administration money could not
5 be put into basic field.

6 TIG money could not be put into M&A or Inspector
7 General.

8 We have to stay within the line items as
9 appropriated by Congress.

10 MS. PHILLIPS: Thank you.

11 MR. RICHARDSON: And if I could answer Tom's
12 question, last year's budget was \$338,500,000, and then, this
13 year, it's the 332,702,000, as we're proposing.

14 So, it's decreased \$5,700,000.

15 CHAIRMAN MCKAY: Other questions or comments?

16 Let me just briefly follow up on a comment that Tom
17 made, and we are limited on time, but I just want to put out
18 on the table an issue that we won't resolve today, but may be
19 something we as board members can think about, is this
20 growing number for -- that's being paid to outside counsel,
21 and I think -- I took the liberty of meeting with Vic

1 yesterday to discuss this issue, and it appears there is an
2 opportunity, it seems to me, for us, as board members, to
3 work with Vic to help address this issue.

4 One way -- Tom suggested it -- maybe we ought to be
5 telling the field, you know, how much this is costing us, and
6 see if there's a way to resolve some of these issues outside
7 of litigation, because of course, the field goes and obtains
8 pro bono counsel to sue us, but it seems to me that we can
9 begin to address in a different way the same issue, of
10 working -- assisting Vic in obtaining pro bono counsel to
11 assist us in the litigation.

12 On first blush, it might not be as attractive or
13 sexy to represent LSC in litigation with the field. On the
14 other hand, most of this litigation relates to LSC's
15 forthright enforcement of congressional restrictions, and if
16 we continue to do what we're legally obligated to do, then I
17 personally believe, speaking for myself, that we're going to
18 be in a better standing with Congress to obtain additional
19 funding, which will help the field, and so, if we could make
20 that presentation to private counsel and say, yeah, if you
21 help us do what we're doing by representing us for free,

1 we're laying the groundwork, hopefully, for additional
2 funding from Congress down the line.

3 Vice has made that argument with law firms and has
4 received a favorable response, but it seems to me that
5 perhaps some of us, as members of the board, can participate
6 in that, because this line item is growing, paying outside
7 counsel, and if, for instance, we're sued in St. Louis and
8 we're trying to find a law firm to assist us in St. Louis,
9 perhaps a member of the board who lives nearby, like Chicago,
10 could fly down and participate in a presentation to a law
11 firm to explain why it is helpful, that you are helping
12 low-income people by representing Legal Services, because
13 that way, the money that we're spending, we'd otherwise be
14 spending for law firms, could be going to help the field.

15 I know there are some budgetary issues there, but
16 the point is the net result is you're helping low-income
17 people who have legal needs when you represent Legal
18 Services.

19 So, I put this out as an issue.

20 We don't have a lot of time, but I think it's
21 something that we as the Finance Committee can address and

1 make recommendations to the board on.

2 MR. MEITES: Do you need a motion on the budget?

3 CHAIRMAN MCKAY: On the budget, yes.

4 So, if there aren't any other questions or
5 concerns, then the issue -- the motion would relate to
6 recommending the resolution at page 17A to the full board for
7 approval.

8 M O T I O N

9 MS. PHILLIPS: So moved.

10 A PARTICIPANT: Second.

11 CHAIRMAN MCKAY: All those in favor?

12 (Chorus of ayes.)

13 CHAIRMAN MCKAY: Opposed?

14 (No response.)

15 CHAIRMAN MCKAY: The motion passes.

16 Thank you.

17 The next item is item number 6, presentation of
18 financial reports for the first two months of fiscal year
19 2006, and we'll hear from Mr. Jeffress.

20 MR. JEFFRESS: Thank you, Mr. Chairman.

21 David Richardson is passing out to you the

1 financial report for the first three months of the fiscal
2 year, which are October, November, and December. What we had
3 sent to you in advance was only October and November.

4 We closed out the books about three weeks after the
5 end of the month -- not closed them out, but three weeks
6 after the end of the month, we have that month's report
7 ready. So, this month's report just became ready.

8 In discussing with Chairman McKay yesterday how
9 best to present this information to the board, it felt
10 awkward presenting you old information when we had newer
11 information available.

12 The newer information, of course, was not available
13 at the time we mailed you the board book. So, we sent you
14 the information that was available at the time, but we have
15 newer information, and we thought it best to present the
16 newer information.

17 I will say to you, to those of you who looked at
18 the board book and have questions based on the old
19 information, the trends are all the same.

20 The numbers have been changed somewhat, but there
21 is no significant change in any of the consequences or the

1 direction that we are going.

2 But Mr. Chairman, with your permission, rather than
3 presenting the two-month budget report to the board, I
4 suggest that we go over the three-month budget report, if
5 that's agreeable to you.

6 CHAIRMAN MCKAY: That's all right with the
7 committee.

8 MR. JEFFRESS: All right.

9 David just reminded me -- this budget report -- if
10 you turn to the second page, the first -- attachment A has
11 several columns.

12 The first column reflects the annual budget for the
13 corporation.

14 We took the liberty, instead of comparing it to the
15 temporary operating budget, which was no longer the actual
16 budget, to compare it to the budget that you have just
17 recommended that the board adopt. So, in making these
18 comparisons of the spending to date, we are comparing it to
19 the recommended budget that you've just recommended to the
20 full board.

21 So, I will stick with that page on attachment A for

1 a moment, and again, for those of you who are new to the
2 committee, go over the way it is presented to you.

3 The first column is the annual budget for the year.

4 The second column represents the actual spending
5 fiscal year to date.

6 So, for the first three months of the fiscal
7 year -- October, November, December -- that represents the
8 actual spending in these categories, and on page 1 of
9 attachment A, we have the four categories for basic field,
10 Court of Veterans Appeals funds, grants from other funds, and
11 technology initiatives.

12 Column three, again, represents the annual budget.

13 If this had -- this represents what we would expect to have
14 spent for the first three months of the calendar year.

15 Now, on this page, since all of these are things
16 that are grants to other folks, we just project that we're
17 going to spend these as soon as possible, so we show that
18 column three is the same as column 1.

19 When you get to the next page, which shows the
20 management and administration accounts, and the following,
21 Inspector General accounts, where we expect to spend roughly

1 1/12th of the money each month, that column three represents
2 a proportionate share of the annual budget, not the total
3 annual budget.

4 Column four shows the difference between what has
5 been spent to date and what the budget was, and column five
6 shows what that percentage of the variance is.

7 You can think of column four as unspent money were
8 we to spend the same proportion every month, and column five
9 being the percentage of unspent money.

10 Columns six and seven compare this year to previous
11 year for the same time period, and column eight shows
12 encumbrances to the extent that there is money that we're
13 obligated but we have not yet spent.

14 The second page of the attachment, which may make a
15 little more sense in some ways, more like the budget you're
16 used to seeing, has those same columns with respect to the
17 different offices within management and administration for
18 the corporation.

19 So, again, you see what has been budgeted for each
20 office, what actually was spent by each office for the first
21 three months, what one quarter of the year's budget, or three

1 months's budget, would be if it were proportional, and the
2 variance in terms of what three months' spending is versus
3 what was actually spent, percentage of the variance, the
4 comparison to past years, and the last column, the
5 encumbrances.

6 I'm giving you the structure of this, and now I can
7 talk about what some significant numbers are to look at, if
8 you'd like.

9 CHAIRMAN MCKAY: Please.

10 MR. JEFFRESS: The most significant number in terms
11 of the variance of our spending from what the proportionate
12 amount of spending would be, would be in compensation, and
13 that may be actually easier to see if you go over to
14 attachment B, which is two more pages over.

15 For the management -- and this chart is just for
16 the management and administration account, and it shows you
17 that category, what we have spent in the first three months,
18 how that compares with a quarter of the year's budget, and
19 what the variance is between what a quarter of the budget is
20 and what was actually spent.

21 So, if you look at the column labeled "variance

1 budget versus actual," you will see where we are spending, in
2 every case, less than what was budgeted if we had spent a
3 quarter of the budget each -- thus far.

4 Compensation and benefits -- and I had highlighted
5 in the memo that was sent to you about the two-month -- it's
6 the same for three months. It's the single largest category
7 of unspent funds. That's a result of vacancies within the
8 corporation, where positions are vacant.

9 When those positions are vacant, obviously the
10 funds accumulate.

11 So, the single biggest amount of unspent money is
12 where we budgeted for positions for the full year, and they
13 are currently vacant.

14 The second biggest category of unspent funds is in
15 consulting.

16 The Thanksgiving to New Year's period of the year
17 is not a really active year for a lot of program visits, for
18 a lot of uses by consultants by the corporation.

19 This will pick up as we do more work in the rest of
20 the year.

21 And the next biggest -- and this will be the last

1 category I'll specifically mention -- is our capital
2 expenditures, and we capitalize as capital expenditures our
3 software and computer purchases, and we have not yet done
4 those for this year.

5 So, that's the reason why that category shows less
6 spending than what a quarter of the year might otherwise
7 account for.

8 So, those are -- this represents 19.8 percent for
9 the management and administration accounts of variance from
10 what it would be if we had spent a quarter of the year's
11 money so far.

12 It is relatively consistent with past years, the
13 first quarter being a relatively slow quarter, as a rule.

14 CHAIRMAN MCKAY: Questions, comments?

15 Tom.

16 MR. FUENTES: Mr. Chairman, I appreciate the fine
17 report, and I appreciate the clarity of it. I am concerned,
18 though, just procedurally, and maybe this is more of a
19 long-term thing.

20 These items or these reports, to me, are clearly
21 treasurer reports.

1 I think the Finance Committee responsibility ought
2 be in using the corporate officer, the treasurer, for this,
3 and in the future, I would prefer maybe for you, Charles, as
4 an administrative chief, to give an overview, and then these
5 presentations of specific numbers be made by the treasurer.

6 That would allow board members, especially Finance
7 Committee members, who have further questions and dealings in
8 the interim between board meetings, wants to get into
9 specifics, to go directly to the treasurer.

10 I think we need to be decentralizing administration
11 and making resources available to the board, and I think that
12 would facilitate this.

13 So, I would prefer this kind of -- what I see as a
14 treasurer's report -- being made to the committee by the
15 treasurer, and I think that's a bit of what Bernice was
16 getting at when she offered the earlier question.

17 MS. WATLINGTON: Hello?

18 CHAIRMAN MCKAY: Yes, Ernestine.

19 (No response.)

20 CHAIRMAN MCKAY: Any other comments or concerns?

21 MR. RICHARDSON: If I could just add to what

1 Charles was saying, if you would look on -- at, actually, the
2 page before management and administration, we have also
3 included a report on the loan repayment program.

4 We have a million dollars that is set aside for
5 that.

6 We have made decisions as to which grantees will be
7 involved with this particular project, but we have not
8 selected those attorneys who will be involved with the loan
9 payments at this point.

10 That's something that is ongoing, and hopefully
11 before the next committee meeting, some of those decisions
12 will be made and some of this money will be spent.

13 In addition to that, I wanted to report to you on
14 the Inspector General.

15 You'll see that his budget, the \$2.8 million for
16 the annual budget in column one and then his spending for the
17 three-month period, the 577,000 -- then, again, you've got
18 the three-month budget, the one quarter of his budget.

19 So, at this point, he's \$130,000 under budget,
20 which is basically 18.5 percent under budget for the year.

21 His spending has increased, because the office is

1 ramped up, they have additional staff in, so that's a good
2 sign for the Inspector General.

3 Also, the last page of this report shows you the
4 same breakdown that we did for management and administration.

5 You'll see that the compensation is the single
6 largest component of the \$130,000 variance, the amount that
7 was under-spent, and consulting, same reasoning, less people
8 were out in the field traveling at this point.

9 So, that's 52,700 there.

10 So, three quarters of the money is in those two
11 particular lines.

12 CHAIRMAN MCKAY: I'm sorry. I don't know which
13 page you were referencing. You're talking about the
14 Inspector General.

15 Okay.

16 MR. RICHARDSON: Attachment C, yes.

17 CHAIRMAN MCKAY: Thank you.

18 MR. MEITES: Mr. Chair?

19 CHAIRMAN MCKAY: Yes.

20 MR. MEITES: I have a question about the loan
21 repayment program.

1 As I understand it, that \$1 billion is a one-year,
2 one-shot amount.

3 Is that correct?

4 MR. RICHARDSON: It is money that was derived from
5 the Inspector General's carryover of 2004 that Congress
6 basically reprogrammed and allowed us to set up this loan
7 repayment program.

8 MR. MEITES: Is it the intention that the entire
9 million dollars will be disbursed this year?

10 MR. RICHARDSON: No, sir.

11 We plan on a three-year program. Basically, a
12 third of the money will be awarded, and then the subsequent
13 two years after that will be additional money.

14 MR. MEITES: Thank you.

15 CHAIRMAN MCKAY: Any other questions or comments?

16 (No response.)

17 CHAIRMAN MCKAY: Thank you very much.

18 The next item is item number 7. We're going to
19 hear from Mr. Polgar on the 2007 budget request for Congress.

20 MR. POLGAR: I can make this one really brief.

21 As you know, the board approved an FY 2007 budget

1 request at the October board meeting in Boise. It is our
2 plan to send that up to Capitol Hill, the justification for
3 the Board's proposals, next Thursday, February 2nd.

4 MR. MEITES: Would you remind us what we directed
5 you to ask for?

6 MR. POLGAR: The total request for the corporation
7 was \$411.8 million. The exact breakdown, I don't have in my
8 head, but it was \$386 million and change for the basic field
9 programs, about \$14 1/2 million for management, \$3 1/2
10 million for the Inspector General, and \$5 million for TIG.
11 Those were the main --

12 MR. MEITES: The 411 million -- how did that
13 compare to what we asked for last year?

14 MR. POLGAR: Last year, we requested 363 million.

15 MR. MEITES: Thank you very much.

16 CHAIRMAN MCKAY: Any other questions or comments?

17 MS. BeVIER: I just have one question of Tom.

18 This presentation will be the first time that our
19 request or our intended request has gone to anyone on the
20 Hill.

21 So, you have no -- you haven't sort of given a

1 preview to anybody to get an initial reaction on the request.

2 MR. POLGAR: Except for a couple of meetings that I
3 referred to this morning, at the breakfast briefing, which
4 took place yesterday, no, we have not yet previewed it to the
5 Hill. One difference between what we're doing this year and
6 what we've done in prior years is, in prior years, the
7 corporation has sent up the budget request roughly two weeks
8 after the President made his budget request. This year,
9 we're jump starting it. We're sending ours up the 2nd and
10 the President is sending his budget request up on the 6th.

11 MS. BeVIER: Thank you.

12 MR. FUENTES: Mr. Chairman?

13 CHAIRMAN MCKAY: Mr. Fuentes.

14 MR. FUENTES: I'd like to ask about the protocol of
15 that.

16 I was taken by that when the comment was made that
17 we would be sending our early to the President's, and that
18 has not been the tradition of the corporation in the past.

19 Is there any down side to jump starting or jumping
20 ahead procedurally?

21 What is the courtesy or style or protocol of that

1 matter?

2 MR. POLGAR: Well, in the first place, as I am
3 discovering myself this year, getting it out essentially by
4 the end of January is a very difficult endeavor. So, I don't
5 know why we were sending our budget request up two weeks
6 after the President, but I suspect it had as much to do with
7 production schedules and the ability to get it done as
8 anything else.

9 By law, the official budget request for the Legal
10 Services Corporation is the one submitted by the -- is the
11 recommendation made by the board, not the recommendation made
12 by the President.

13 So, I don't see any problems with going in advance
14 of the President.

15 MR. FUENTES: Is there any tradition, experience,
16 or knowledge that we have of other organizations, how they
17 handle it?

18 MR. POLGAR: I believe there are only two other
19 organizations in the entire Federal establishment that have
20 independent budget submission authority. One is the Federal
21 Reserve, and the other one is some small board whose name

1 escapes me, and no, I don't know how they handle it.

2 CHAIRMAN MCKAY: Did we beat Greenspan?

3 Any other questions or comments?

4 (No response.)

5 CHAIRMAN MCKAY: Thanks a lot, Tom.

6 The next item on the agenda is considering and
7 acting on other business.

8 Is there any other business?

9 (No response.)

10 CHAIRMAN MCKAY: Public comment.

11 Anyone from the public comment want to have
12 something to say?

13 (No response.)

14 CHAIRMAN MCKAY: Last item is adjournment.

15 M O T I O N

16 A PARTICIPANT: So moved.

17 A PARTICIPANT: Second.

18 CHAIRMAN MCKAY: All those in favor?

19 (Chorus of ayes.)

20 CHAIRMAN MCKAY: Opposed?

21 (No response.)

1 CHAIRMAN MCKAY: We're adjourned.

2 (Whereupon, at 12:18 p.m., the meeting was
3 adjourned.)

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