

ORIGINAL

LEGAL SERVICES CORPORATION

AUDIT AND APPROPRIATIONS COMMITTEE MEETING

December 5, 1993

10:01 a.m.

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

Diversified Reporting Services, Inc.

918 16TH STREET, N.W. SUITE 803
WASHINGTON, D.C. 20006
(202) 296-2929

BOARD MEMBERS PRESENT:

Maria L. Mercado, Chair
Hulett H. Askew
LaVeeda M. Battle
John T. Broderick, Jr.
John G. Brooks
Douglas S. Eakeley
W. William McCalpin
Nancy H. Rogers
Thomas F. Smegal, Jr.
Ernestine P. Watlington
Edna Fairbanks-Williams

STAFF PRESENT:

John P. O'Hara, President
Emilia DiSanto, Vice President
Patricia D. Batie, Secretary
David Richardson, Treasurer & Comptroller
Edouard Quatrevaux, Inspector General
Victor Fortuno, General Counsel
Ellen Smead, Director, Office of Program Services
Suzanne Glasow

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P R O C E E D I N G S

1
2 CHAIRMAN MERCADO: I would like to reconvene the
3 meeting of the Audit and Appropriations Committee meeting.
4 Good morning to all of you. I would like to just very
5 quickly set some ground rules. I know we were very tired
6 yesterday, but we had some very limited time and we do have
7 the full Board meeting that starts at 10:30. We hope that
8 through some of the pre-meeting preparation we've been able
9 to reduce the amount of time that this agenda will take.

10 If you will look at your agenda, Item 5, which is
11 Consideration of Proposal on Development of the Corporation's
12 Fiscal Year 1995 Budget Mark and all the comments that follow
13 thereafter, and Item 6 on the Development of the Fiscal 1995
14 Budget, those two items need to be formally taken off the
15 agenda, and I would so entertain a motion, because these will
16 be dealt with at the full Board meeting. To save some time
17 in repetition, we'll just deal with it at that point.

M O T I O N

18
19 MR. SMEGAL: I move to amend the agenda to delete
20 Items 5 and 6.

21 MR. BRODERICK: Second.

22 CHAIRMAN MERCADO: All those in favor?

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1 (A chorus of ayes.)

2 CHAIRMAN MERCADO: Opposed?

3 (No response.)

4 CHAIRMAN MERCADO: Abstention?

5 (No response.)

6 CHAIRMAN MERCADO: Motion carries. The next item
7 that is on the agenda is Item 4, but that is being prepared
8 right now, so we'll come back to that just a little bit
9 later. We will go to Item 7, which is Consideration of the
10 Inspector General's Report on the Office of the Inspector
11 General.

12 CONSIDERATION OF THE INSPECTOR GENERAL'S REPORT ON
13 THE OFFICE OF THE INSPECTOR GENERAL

14 MR. QUATREVAUX: Good morning. We have two
15 projects that are nearing completion that are irrelevant to
16 the discussions of yesterday. The first, as you know, is --

17 CHAIRMAN MERCADO: Your speaker is not on or not up
18 or something, I'm not sure.

19 MR. QUATREVAUX: Thank you. The first one is the
20 cash position deficit analysis which we commissioned as a
21 result of the concerns expressed by you. We are not prepared
22 today to give you a final precise answer. That is because we

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1 are, in fact, auditing the records to verify the actual
2 position. We didn't think that you would be moving quite so
3 rapidly. Also, we've been slowed somewhat by the difficulty
4 of auditing accounting records that are, frankly, difficult
5 to audit.

6 The Chairman of the Board asked four questions of
7 me yesterday, whether we should return to an accrual basis of
8 accounting for budget purposes. Of course, the answer to
9 that was yes. He asked about the precise deficit. As I say,
10 I'm not sure exactly what that number is and I can't tell you
11 today. We will, in a draft report early next month, or next
12 month, I should say, do that. We think that the current year
13 deficit may, in fact, be less of a problem.

14 The suggestion I have for you to consider is that
15 we treat whatever the current year, that is FY 1994 deficit
16 in the M&A account, just as our regulations require our
17 grantees to react. What that means is we don't need to work
18 off that deficit, whatever it is, in a single year. But,
19 instead, our regulations require grantees to prepare a
20 deficit reduction plan. I would suggest you consider that
21 approach.

22 MR. EAKELEY: Ed, can I just interrupt you there

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1 for a second?

2 CHAIRMAN MERCADO: You may?

3 MR. EAKELEY: May I? I'm sorry. The effect of
4 going from an accrual to a cash accounting basis last year
5 was to borrow from this Board's budget and spend on last
6 Board's priorities. I'm not quarrelling with the priorities,
7 and indeed I'm not faulting anybody here or then.

8 The consequence of deferring the remediation of the
9 deficit we've discovered is that we extend spending patterns
10 that we did not approve and we further diminish our own
11 capacity to develop new programs; for example, additional
12 technical assistance and support or an expansion of the
13 comparative demonstration project peer review and standards
14 of performance findings.

15 That's one of my very real sources of concern, that
16 unless we take every possible step today, we will find
17 ourselves even less capable tomorrow of moving forward
18 together. So, I understand your suggestion and we appreciate
19 -- we need to know where the discretion is and what your
20 thoughts are.

21 MR. QUATREVAUX: Well, let me respond to your
22 thought. I understand that concern. It's a very real one.

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1 I think what you will find when you come to understand the
2 true consequences -- and I'll speak to that perhaps at
3 another time -- the true consequences, that you don't have
4 very much flexibility. That, in fact, this is not a new
5 problem. Beginning in fiscal year 1992, this approach began
6 to be taken.

7 You should perhaps also know that the fiscal crisis
8 of fiscal year 1993, which we completed in September and
9 which occasioned reductions in employee benefits, furlough
10 days, deferred training, and a number of other consequences,
11 really was caused by the development of the meritorious and
12 innovative grant program, the funds for which were taken out
13 of the M&A line.

14 Or, to be more precise, the carryover, at least as
15 long as I've been here, has been a supplement to the M&A
16 line. I believe the numbers were 18 percent, in fact, in
17 fiscal year 1991 and 14 percent in 1992. So this sort of
18 thing has been gradually building and, in fact, has been
19 foreseeable.

20 I provided to you a June memorandum to your
21 predecessors on the subject of financial management which
22 traces some of the history and may possibly be informative

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1 and helpful to you. This is not a new problem. We have,
2 without going into more detail at this point, an organization
3 that has needs. We have an organization that has poor
4 morale, for a variety of reasons. I just want to suggest to
5 you there are possibly some severe consequences associated
6 with taking large cuts in the M&A account this year.

7 CHAIRMAN MERCADO: Mr. Quatrevaux, just very
8 quickly, because you did mention that this problem in 1992 --
9 we're really dealing with fiscal 1992 and fiscal 1993
10 deficits and fiscal 1994 deficits. So we have three years
11 that we have to deal with.

12 So the recommendation to look at something
13 projected into the future again just delays the problem.
14 We're ready to deal with it right now so that we can get on
15 with new programs and new priorities that this Board sees as
16 important, perhaps. I understand that the former Board made
17 these decisions. We're stuck with them now. So now we're
18 going to have to deal with them.

19 What I would like to hear from you, I would like to
20 hear from you what areas you would think that the inspector
21 general's budget would stand some reduction in, if there is
22 any that could be reduced.

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1 MR. QUATREVAUX: Well, that requires a tracing of
2 just what is the inspector general's budget, which has moved
3 around a great deal. I'm prepared to offer to you -- and let
4 me say to you that the document you hold, which is
5 purportedly my budget request, I do not possess. I was made
6 aware of its existence yesterday in its current form. So we
7 have a great deal to talk about.

8 I'm not sure that you have sufficient time for me
9 to make a budget presentation. Our budget presentation is
10 also, in part, based upon our operational plan which is based
11 on our assessment of the potential risk for fraud here and in
12 the field, as well as the need for various types of
13 performance evaluations. I think we need to go through that
14 process because that is the whole rationalization for my
15 budget.

16 Let me demonstrate to you the lack of flexibility
17 here. We had a budget cut the last year, unspecified, OIG,
18 of some \$95,000. I used personnel vacancies. I was
19 fortunate I had some people who left. I kept those positions
20 open, including the OIG counsel position, several months in
21 order to make that \$95,000 cut. As a consequence, we spent,
22 actual dollars, \$893,000 in fiscal year 1993. For me to

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1 pay -- just meet the payroll in OIG for FY 1994 is almost
2 that same amount.

3 Tomorrow we're going to have five people on travel
4 on three different projects. So there is a travel component
5 to my budget. Much of what we do we have to do in the field.
6 There is very little flexibility. You recall the memo I gave
7 you on the FY 1994 budget? I indicated to you that the
8 number in there is a target figure, a soft number. It is the
9 \$65,000 for consulting.

10 I am prepared to say to the Board take \$50,000 of
11 that. Now, in doing so, I forfeit doing various pieces of
12 work, obviously. Most OIGs in the audit world use a
13 combination of in-house staff and contract audit services.
14 For example, the performance audit of grantee monitoring is
15 being performed under contract by Cotton & Company, a CPA
16 firm here in Washington. That money, the money for that,
17 comes in that consulting line.

18 What I wanted to do was give you an assessment of
19 the situation, various projects I thought that could --

20 CHAIRMAN MERCADO: Now, in the Cotton & Company
21 contract, is about half of that money already spent?

22 MR. QUATREVAUX: It's all obligated. It's a firm,

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1 fixed price contract for \$104,000. I would say the work is
2 about -- and this is just right off the top of my head -- 80,
3 perhaps more, percent completed. There's no backing out from
4 that contract.

5 MR. EAKELEY: How much are you proposing for travel
6 in your 1994 budget?

7 MR. QUATREVAUX: The figure we have in there is
8 \$55,000.

9 MR. EAKELEY: If we're asking OPEAR to pare down
10 use of consultants in travel, is there some flexibility there
11 to reduce without cutting into your effectiveness?

12 MR. QUATREVAUX: The truthful answer is no, but the
13 fact of the matter is I understand your predicament. You
14 should also recognize that much of our travel is reactive.
15 We don't have any choice. We spent \$37,000 actually for
16 travel last year. That was on a minimized basis.

17 We deferred training as well. There's some travel
18 costs associated with training. I will certainly do
19 everything I can to hold that number down. The reason why
20 it's \$55,000 this year is to begin our quality assurance
21 review program, the purpose and origin of which takes some
22 time to explain to you. Again, it's based on our assessment

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1 of the potential for fraud.

2 CHAIRMAN MERCADO: I know that one of the things,
3 and at some point we're probably going to want to look at, is
4 that we're going to want to look at the return for money in
5 the monitoring reviews that you do versus the money that we
6 spend out as far as to the fraud amount that has actually
7 been found within the programs. But I'm not sure whether
8 that's really something that is --

9 MR. QUATREVAUX: I don't think those are connected,
10 Madam Chair. MAC or OPEAR has no responsibility for fraud.

11 CHAIRMAN MERCADO: No, I know. I'm talking about
12 in your office.

13 MR. QUATREVAUX: Well, let me also say that our
14 budget is not predicated on a dollar return, a tangible
15 dollar return. I'll be happy to discuss all the nuances of
16 that. In fact, much of the benefit that we believe accrues
17 from our operation, the Congress also believes is, frankly,
18 not subject to being measured. You can't measure something
19 that doesn't happen. Deterrence is a very big piece of our
20 return. We've done various analyses along these lines.

21 MR. EAKELEY: We saw the budget process that we've
22 got to go through before the Board authorizes the expenditure

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1 of corporate funds. We're not in the position to do that, I
2 don't think. As you've said, you haven't had an opportunity
3 to present your plan of operation and your budget to us.

4 But my own sense of it is that confronted with the
5 deficit we have and given my own strong inclination to try
6 and address it as soon as possible, I think where we are
7 between now and the time when we address your plan is
8 probably to ask for the same type of response that we're
9 asking of corporate management, namely no increases in
10 spending, no additional commitments either for consultants
11 or --

12 Try and pare down the travel, try and pare down the
13 on-site visits while you can, impose a salary that --
14 everything short of a layoff situation. We don't want to
15 stumble into forcing reductions in force. I think that's
16 something that has to come back from management and from your
17 office if the deficit is that dire.

18 But right now I think where I sense we're going is
19 a spending plan that we'll ask you to come back to but with
20 some guidelines along the lines I've just suggested that will
21 permit us to come in with a management and administration
22 budget as appropriated and adjust it for accrual and for the

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1 deficit we're inheriting; in other words, something around
2 \$10 million globally for your office and for management and
3 administration from the Corporation.

4 CHAIRMAN MERCADO: Again, you must understand that
5 we're dealing with three years of deficit expenditures that,
6 for whatever reason, were done, were approved, but we have to
7 deal with it now fiscally. If we're going to hold this
8 Corporation fiscally responsible, then we don't want to go
9 into the budget for 1994 with a deficit, definitely with a
10 budget mark for 1995. We don't want to have that.

11 You know, 1995 may be a better year, but we have to
12 deal with the figures now. For us, it's imperative that we
13 get input from all the different divisions as to where they
14 see best that there may be reductions without hurting the
15 current status of the employees that they have.

16 MR. QUATREVAUX: I understand the magnitude of your
17 problem and the solution that you seek. I'll do everything I
18 can to help you. Let me just say two things. One, I think
19 the grantee monitoring audit offers very large cost savings.
20 In fact, they may be large enough to pay for the OIG's
21 regular annual budget forever.

22 I hope someday to convince you of the fact that we

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1 are, in fact, a resource for getting more out of the current
2 resources of the Corporation and eliminating unnecessary
3 expenses. I think we're a profit center for you, is what I'm
4 trying to say.

5 MR. BRODERICK: Can I ask a question? One of the
6 things that troubles me is that we are into fiscal year 1994
7 and we don't have an approved budget. I'm curious to know in
8 fiscal year 1993 what the budget cycle was and when approval
9 was secured.

10 I find it incomprehensible an organization this
11 large with the responsibilities it has can be into a fiscal
12 year with no approved budget. What was the situation in
13 1993?

14 MR. QUATREVAUX: Well, I think the comptroller
15 could best answer. My belief is -- I'm trying, as you ask
16 the question, recall precisely when it happened. But I think
17 the comptroller will tell you, or at least he's told me, that
18 he recommended to the Board, to the chairman of this
19 committee, on more than one occasion that the budget process
20 be accelerated.

21 There are also other recommendations such as,
22 perhaps, a two-year budget and things along those lines. The

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1 rationale, as I understand it, was well, the appropriation is
2 not received, often not received, until October or so. Of
3 course, the entire executive branch prepares budgets based on
4 assumptions.

5 MR. BRODERICK: Don't they operate on contingency
6 budgets?

7 MR. QUATREVAUX: Yes, yes. So, you're right.
8 That's what we should do. Our budget process is at least
9 three to four months --

10 CHAIRMAN MERCADO: Just at least for information of
11 other members who are not on the committee, there is a
12 calendar of how a budget process is supposed to be carried
13 out. We are nine months behind that budget process. I mean,
14 you're right; this should have been taken care of with the
15 other Board. Again, we're going to have to deal with it now.
16 We're going to have to deal with it quickly, but hopefully
17 effectively. At this point we should be discussing the
18 budget for 1995, but we're not.

19 In any event, that's why we're going to need an
20 even quicker response from the different divisions into how
21 to help us accomplish this quickly. Hopefully, before a
22 calendar year is over, we will be on time on the other

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1 budgets and budget marks.

2 MR. EAKELEY: We are running out of time. I'm
3 wondering whether it would be out of order to suggest that we
4 move to Item 8 or see whether or not while Ed's here if
5 there's anything we need to address now in the context of the
6 status of the --

7 CHAIRMAN MERCADO: For the audit?

8 MR. EAKELEY: -- the annual audit that's being
9 performed by Grant Thornton or whether that's something we
10 can note that is happening as we speak.

11 CONSIDERATION OF STATUS REPORT ON THE CORPORATION'S
12 FISCAL YEAR 1993 ANNUAL AUDIT BEING PERFORMED BY
13 THE FIRM GRANT THORNTON

14 MR. QUATREVAUX: Well, that's the situation. The
15 draft report is due on the 30th of December. We'll discuss
16 it with the audit firm, with the comptroller. The final
17 report is due on the 18th of January. We'll provide that to
18 you as soon as we receive it. But it's nothing
19 extraordinary.

20 CHAIRMAN MERCADO: Just for the record, Mr.
21 Quatrevaux, and I guess Mr. Richardson can also verify this,
22 we have let the auditors know as to how the accrual of rent

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1 was dealt with in the cash basis budget so that when they
2 deal with their audit they will deal with those issues; is
3 that correct?

4 MR. RICHARDSON: For the record, my name is David
5 Richardson. Yes, ma'am, we have. The same information that
6 you've seen they have seen. I've provided them draft
7 financial statements as far as a balance sheet and a
8 statement of fund balances. There have been contacts through
9 the year with the managing partner of our particular audit to
10 discuss the use of the deferred rent and the lack of funding
11 it.

12 One additional thing is when we talked about the
13 deficit, I did inquire if the deficit fund balance would
14 create a qualified opinion. Her answer to me was no, unless
15 it was a very large amount. But she did not think it would
16 be significant to our financial statements.

17 CHAIRMAN MERCADO: Okay, thank you. Is there
18 anything else?

19 MR. BRODERICK: I just have one question, Mr.
20 Quatrevaux. You had sent to the Audit and Appropriations
21 Committee a memo dated November 17th which attaches an OIG
22 fiscal year 1994 freeze budget. Is that the budget under

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1 which you are currently operating?

2 MR. QUATREVAUX: Yes, it is, the exception being,
3 of course, that I will not commit any of the consulting money
4 that's contained in there.

5 MR. BRODERICK: I understand.

6 MR. QUATREVAUX: But that's the basis, yes. That
7 is what we view as a minimum floor to accomplish the job that
8 we are supposed to, given the circumstances here.

9 MR. BRODERICK: All right, thank you.

10 CHAIRMAN MERCADO: Okay, thank you. We'll now go
11 to Item No. 9.

12 MR. EAKELEY: Do you want to just have him stay
13 there?

14 CHAIRMAN MERCADO: Yes.

15 MR. EAKELEY: This is the management response to
16 the inspector general's report.

17 CONSIDERATION OF MANAGEMENT'S PROPOSED RESPONSE TO THE
18 INSPECTOR GENERAL'S SEMIANNUAL REPORT FOR THE
19 PERIOD ENDING SEPTEMBER 30, 1993

20 MS. DiSANTO: Good morning. My name is Emilia
21 DiSanto. I'm vice president of the Legal Services
22 Corporation. On October 30th this Board received the Office

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1 of Inspector General's semiannual report. By statute, the
2 Board is required to provide a response to the inspector
3 general's semiannual report within 30 days of receipt.

4 In this particular instance, because we had a new
5 Board, a letter was sent to Congress advising Congress of the
6 fact that we had a new Board, it's first meeting occurred on
7 November the 8th, and that they would not be meeting until
8 today, and that the semiannual report would be just a touch
9 later than it should be.

10 In that regard, the Board has been provided with
11 two proposed responses. The most recent proposed response
12 was provided to the Board on November 29th. Of note on that
13 particular response is the drafting of a preface. That
14 particular preface basically says that you are a new Board,
15 you've just taken over, and the knowledge that you have about
16 what happened during the period that was covered by the
17 inspector general's semiannual report, which is from April 1,
18 1993, to September 13, 1993, that you don't have any personal
19 knowledge about that particular matter.

20 You should also know that the semiannual report was
21 also shared with the OIG Oversight Committee from the former
22 Board to solicit any comments that they might have. To date,

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1 any comments that have been received have been incorporated
2 into the second draft of the semiannual report that you --
3 the response that you currently have.

4 As we stand right now, we have advised Congress
5 that we will provide them with a response to the semiannual
6 report by December 15th. Any questions that you might have
7 or any changes that you might propose?

8 CHAIRMAN MERCADO: Has everyone on the committee
9 had an opportunity to look at the second draft? Are there
10 any additions, deletions, or corrections that any of the
11 committee members see?

12 MR. SMEGAL: I have none.

13 CHAIRMAN MERCADO: Do you want to accept the
14 recommendation?

15 M O T I O N

16 MR. SMEGAL: I'll move that we accept the interim
17 report as recently presented to us.

18 MR. EAKELEY: I'll second that.

19 CHAIRMAN MERCADO: Any further discussions?

20 (No response.)

21 CHAIRMAN MERCADO: Hearing none, all those in
22 favor?

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1 (A chorus of ayes.)

2 CHAIRMAN MERCADO: Opposed?

3 (No response.)

4 CHAIRMAN MERCADO: Abstention?

5 (No response.)

6 CHAIRMAN MERCADO: Motion carries. The next item
7 on our agenda -- we took care of Item 10 last night with the
8 Veterans Court of Appeals. So we will go back on the agenda
9 to Item 4, Consideration of a Proposed Resolution that will
10 Authorize Expenditure of the Corporation's Fiscal Year 1994
11 Funds Until a Fiscal Year 1994 Budget is Adopted.

12 I have passed to the committee members a resolution
13 that has been drafted between management and chair of Audit
14 and Appropriations and chair of the Board. Emilia, if you
15 will present that, please?

16 CONSIDERATION OF PROPOSED RESOLUTION THAT WILL AUTHORIZE
17 EXPENDITURE OF THE CORPORATION'S FISCAL YEAR 1994 FUNDS
18 UNTIL A FISCAL YEAR 1994 BUDGET IS ADOPTED

19 MS. DiSANTO: If it's okay with the Chair, I'd ask
20 Mr. Richardson also to come to the table, if possible.

21 CHAIRMAN MERCADO: Yes. Ed, you need to stay.

22 MR. EAKELEY: You're part of the budget, among many

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1 other things.

2 MR. RICHARDSON: I stepped out of the room to try
3 to handle some other things. Do you have a copy of the
4 resolution?

5 CHAIRMAN MERCADO: Yes.

6 MR. RICHARDSON: This morning, prior to our
7 meeting, we sat down with the chairman of the Board, Mr.
8 Eakeley, and Ms. Mercado, to try to work out an operating
9 framework of how to attack it for the year. There is a
10 resolution before you that states some of the restrictions
11 that we've been talking about today.

12 Basically, would you like me to read it or just
13 sort of summarize it?

14 MR. McCALPIN: We have it.

15 MR. RICHARDSON: Basically it says that --

16 CHAIRMAN MERCADO: Just for the audience's
17 information, we will have copies of the resolutions for you
18 later since the full Board will vote on these resolutions at
19 the full Board meeting. But right now for the Audit and
20 Appropriations Committee, I want to go ahead and get those
21 done. It will actually be two resolutions. Emilia, you can
22 go ahead and start with the major one, which is the

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1 encompassing one.

2 MS. DiSANTO: This morning we just met briefly.
3 Mr. Quatrevaux has not even had an opportunity to look at
4 what was just handed out. It was basically to develop, as
5 David said, a framework in which we can work for this fiscal
6 year, recognizing that we're already three months into the
7 fiscal year. We are switching from a cash basis back to an
8 accrual basis.

9 We have a couple of concerns that we're trying to
10 deal with that are out here, in particular the rent
11 incentive, and recognizing some of the concerns from the
12 field about the fact of interest dovetailing into M&A as well
13 as grant recoveries being dovetailed into M&A. So those have
14 been explicitly removed from this particular budget.

15 What we have done is basically came up with an
16 overall M&A budget of \$10 million. That \$10 million figure
17 does not include interest on funds received, it does not
18 include grant recoveries, it does not include \$100,000 of
19 board initiatives, and does not include any additional funds
20 that we may think might come in over the upcoming year.

21 In addition, it does hold aside approximately
22 \$142,000 as safe money somewhere on the side. The figure

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1 that we have come up with this morning was an overall figure
2 of \$10 million, stating that M&A budget cannot exceed \$10
3 million in FY 1994, recognizing, of course, that we're
4 already three months into the new year.

5 This resolution more or less breaks out that \$10
6 million into two categories, is what we've basically tried to
7 do. One category are the offices that report directly to the
8 president of the Corporation. The second category is the
9 office that reports directly to the Board of Directors.

10 Here, what we have broken out, saying that there is
11 a \$10 million overall budget for the Corporation, \$9,050,000
12 to be allocated to those offices directly supervised by the
13 president, \$950,000 allocated to the Office of Inspector
14 General.

15 The last provision basically sets forth those
16 things that need to be considered and that management will
17 need to work with in order to reach that \$10 million figure
18 and not go over so we are not in a deficit situation at the
19 end of 1994.

20 We have just set forth some of the measures that we
21 need to consider and probably start working on very, very
22 quickly, which include, and are not limited, to the

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1 elimination of any temporary employees, furlough days,
2 reductions in benefits, salary freezes, and reduction in
3 force.

4 Coupled with this particular resolution, we have a
5 second resolution that you have just been provided. That
6 resolution is again dealing with the budget and trying to
7 ensure that we do not go into a deficit situation in FY 1994.
8 That particular resolution is strictly involved with on-site
9 reviews that are conducted by the Office of Program
10 Evaluation Analysis and Review.

11 The purpose of that resolution is basically to say
12 that there are two main lines in that particular office.
13 There is a consulting line and there is a travel line. The
14 purpose of this resolution is to say that in those particular
15 lines, efforts are going to be made to reduce the scope of
16 the on-site reviews of trying to reduce the number of days
17 that you're on site, reduce the number of people that go on
18 site, reduce the number of consultants that you use to go on
19 site.

20 By those measures, we're going to reduce the amount
21 of money that is expended in those two particular lines. At
22 the same time, to insure the integrity of the process and to

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1 ensure that we uphold our responsibility under the Legal
2 Services Corporation Act, which, under 1007(d), says that we
3 need to conduct monitoring and evaluation.

4 The resolution goes on to say that in those
5 instances requiring the view, or requiring follow up, or
6 where emergency assistance is needed, that we will continue
7 those types of on-site reviews. That's basically the purpose
8 of the two resolutions that you have before you, are all
9 directed toward maintaining the fiscal integrity of the
10 Corporation for FY 1994.

11 CHAIRMAN MERCADO: Mr. Askew, I know your committee
12 came up with this. Do you need to elaborate some points on
13 that?

14 MR. ASKEW: Just briefly, yes, thank you. A couple
15 of the committee members met with staff last night to discuss
16 where cost savings could be effectuated in the monitoring
17 evaluation, technical assistance, and compliance line. We
18 came up with this resolution as a way of providing guidance
19 to the staff about how they should conduct themselves over
20 the next three months until we get a better handle on the
21 budget and while we go through a process of reevaluating the
22 whole monitoring and evaluation system.

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1 Our goal is for staff to come back to us at the
2 January meeting with a plan for implementing these changes.
3 In the meantime, this is instructions mostly to staff about
4 how to effectuate cost savings in the meantime, starting now.

5 CHAIRMAN MERCADO: Nancy?

6 MS. ROGERS: I might say, if this is a friendly
7 addition, that the hope is that much of the savings might be
8 done in the next couple of months, the next two or three
9 months. That would permit, because there wouldn't be field
10 reports, as many, to review by the staff, permit the staff
11 time to take a hard look at some of the other proposals we
12 hope to present for possible modifications of the approach.

13 CHAIRMAN MERCADO: Is there any other discussions
14 on these resolutions?

15 MR. EAKELEY: I'd just like the inspector general's
16 reaction at some point, too. I don't want to preempt Bill
17 McCalpin first. Go ahead.

18 MR. McCALPIN: May I just suggest that paragraph 4
19 of the on-site review motion suggests that you are going to
20 review those programs which are operating in compliance with
21 the law. I would suggest that maybe the word "to" ought to
22 be "of." You reduce the frequency of reviews of those

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1 programs which are operating in compliance. The way this
2 reads it looks like those are the ones that are going to be
3 reviewed.

4 MR. ASKEW: I accept that amendment.

5 CHAIRMAN MERCADO: Mr. Quatrevaux?

6 MR. QUATREVAUX: Thank you. My office will do
7 everything we can to meet this target level. I'm hopeful
8 that we will be able to do it. I just say to you if we run
9 into extraordinary circumstances down the road, that I'll
10 just bring those to your attention and we'll work it out as
11 necessary.

12 I would ask for a point of clarification. Some of
13 the methods described of achieving savings are more or less
14 corporate-wide. So you've asked me to operate within this
15 budget of \$950,000. I'll certainly do that. But to the
16 degree that decisions made by corporate management apply to
17 my office -- you see my dilemma?

18 For example, if there are furlough days, that will
19 save dollars across the M&A account, including my office.
20 But I need some way, as I go about producing a plan to
21 operate at this level, to have some knowledge and visibility
22 of what's being planned by the president in those areas.

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1 MR. EAKELEY: I would encourage the inspector
2 general and the president to coordinate, to the extent
3 possible, indeed to coordinate carefully, to make sure that
4 we do the best we can under the circumstances. But the
5 purport and effect of this resolution, if passed by the
6 committee and adopted by the Board, will be to limit the
7 authority of anybody in the Corporation to expend the funds
8 of the Corporation beyond the levels approved.

9 I'm just saying there will be plenty of opportunity
10 to come back through the course of the year and rebuild, I
11 hope. If there are emergencies, yes, we've got to be
12 flexible and we've got to have the capacity to respond. But
13 we need the opportunity to respond before the expenditures
14 are committed or made.

15 MR. BRODERICK: Can I ask a question on this budget
16 proposal?

17 CHAIRMAN MERCADO: Yes, go ahead.

18 MR. BRODERICK: It's unclear to me at this point,
19 since, as I understand it, the \$10 million does not include
20 interest or grant recoveries or some other items that are
21 identified, what's going to happen to those funds in this
22 budget?

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1 MR. EAKELEY: We don't have a budget yet.

2 MR. BRODERICK: I understand that, but we don't
3 have a budget yet and I assume those funds are becoming
4 available.

5 CHAIRMAN MERCADO: Mr. Richardson will deal with
6 this.

7 MR. RICHARDSON: In developing these figures, we've
8 actually set aside \$142,000 for the emergencies that, for
9 instance, was just described by Mr. Quatrevaux, where the
10 Board would be able to dip into that money and use it.

11 To answer your question as far as the grant
12 recoveries and the interest, if we went the full year without
13 going into those funds, then we would have a credit,
14 basically, in our fund balance and it would be available to
15 expend next year.

16 We are anticipating approximately \$350,000 in
17 interest and grant recoveries this year. So, basically,
18 instead of having a deficit in the fund balance, you will
19 have that money to add to next year's operations.

20 MR. EAKELEY: Or, we haven't developed our own
21 spending priorities yet. The idea is to ratchet down
22 spending so that we come into balance, but have something

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1 potentially available if the Audit and Appropriations
2 Committee and Provisions and Operations and Regulation
3 Committees come back to say these are new directions or
4 initiatives that we would like to undertake.

5 So it's, in a sense, attempting, notwithstanding
6 this, to set up some reserves and also confirm that, in fact,
7 those reserves are available to the M&A line, which needs
8 confirmation still.

9 CHAIRMAN MERCADO: One of the things that we didn't
10 want to do is that we didn't want to leave a budget that
11 didn't have some kind of contingency balance in there.
12 That's why we took those items out of there, and also because
13 there's a question about whether or not they can legitimately
14 be used for M&A budget or whether they should go to the
15 particular line in which they were allocated.

16 Ms. Rogers had a question.

17 MS. ROGERS: Thank you. Mr. Quatrevaux, I know you
18 had mentioned that one place you would recommend cutting is
19 the travel and consultant fees in the OPEAR budget. You've,
20 I guess, seen this draft resolution about how those cuts
21 would be made.

22 I wonder whether you think that that cut

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1 jeopardizes the ability of the Corporation to make sure that
2 the funds are being used in the way that Congress provided
3 them to be used.

4 MR. QUATREVAUX: That's a very difficult question
5 to answer. I believe that the action that is contemplated by
6 the resolution is certainly justified by the circumstances.
7 The knowledge that we have of that process is still in the
8 preliminary stage. I listened, as you did, to various people
9 testifying yesterday. Given the concern, and the doubt, and
10 the confusion, and taken with the budget situation, I think
11 the action is certainly justified.

12 CHAIRMAN MERCADO: Ms. Williams?

13 MS. FAIRBANKS-WILLIAMS: He's listed \$350,000 as a
14 prospect of recovery and interest. Why is that higher than
15 what it was last year, if you compare the two? Are you
16 planning on something big that you've got fermenting some
17 place or you just did that as --

18 MR. RICHARDSON: No. Last year interest rates were
19 at an all-time low. They have started climbing. So we do
20 anticipate additional interest coming in from the float of
21 our grant funding. Plus, we've got increased money that will
22 be in the float because of the increased appropriation.

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1 We are already aware of questioned cost and money
2 that has been returned to the Corporation in the amount of
3 \$150,000 from the grant lines. So we are aware of certain
4 events that will affect and actually increase the other funds
5 through the grant recoveries and interest.

6 CHAIRMAN MERCADO: Mr. O'Hara had some comments.

7 MR. O'HARA: Thank you, Madam Chairman. I just
8 wanted to bring to the attention of the Board that we are
9 already aware of one situation where we will be needing
10 additional funds. It's not for M&A. I've had a discussion
11 with Rick Tietelman who was our great source of information
12 in the floods during the past summer.

13 As we all know, a lot of the levies are down along
14 the Mississippi and there's not a chance that they're going
15 to be up by the spring. So if we have a heavy winter of
16 snow, the people in the midwest and most of them are clients
17 because they can't afford to live in places other than the
18 flood plain, we're going to have another disaster on our
19 hands.

20 We will probably need to go back to the Congress.
21 I just want to make the committee aware of that so that if
22 the chairman decides to go or instructs me to work with the

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1 committees, I would be happy to do that.

2 CHAIRMAN MERCADO: Are there any other comments on
3 the resolutions that are before you? We will deal with the
4 major resolution first and then with the added resolution
5 that expands the discussion on the expenditures.

6 MR. BRODERICK: I just have one question,
7 informationally.

8 CHAIRMAN MERCADO: Yes.

9 MR. BRODERICK: Paragraph 4 of the resolution, the
10 fiscal year 1994 spending authority, talks about the
11 possibility of reductions in employee benefits and salary
12 freezes. I'm just wondering where the discretion lies to
13 make that and whether we've given any thought as to how
14 that's going to be implemented, and who it effects.

15 MR. EAKELEY: I think the thought is to let
16 management do the best they can to deal with the situation,
17 given the guidelines we've set, rather than permit the Board
18 to get into the micromanagement of the Corporation.

19 MR. BRODERICK: Well, I don't want to do that
20 either, but I want to be fair to people.

21 MR. EAKELEY: I think that's the overwhelming
22 intention that we all share here.

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1 MR. BRODERICK: I'm not suggesting that you're not.
2 I just think it's important since people who will be impacted
3 by this, most of them had nothing to do with establishing the
4 policies of the past Board or creating the problem that
5 currently exists.

6 I want to make sure that if we're going to do this,
7 one Board member wants to make very certain that it is done
8 in a fashion that is equitable and fair to as many people as
9 we can be equitable and fair to, under the circumstances. I
10 think that's very important.

11 CHAIRMAN MERCADO: John, in our discussion with
12 management that Doug and I had, we stressed time and time
13 again we do not want employees to be the losers in this
14 process. That if there are other areas that we can cut,
15 whether it's consultant or contracts that have not been
16 committed, or travel, on-site, that that is the priority and
17 the preference to deal with because we do understand that.

18 I think that Doug and I made that pretty clear to
19 management that that's what we wanted to see happen. We
20 don't want people laid off either.

21 MR. BRODERICK: Thank you.

22 MR. SMEGAL: Madam Chair, I assume the process will

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1 be that this committee will act on these. Is there going to
2 be an opportunity before the full Board for the public to
3 respond? They obviously haven't seen these yet.

4 CHAIRMAN MERCADO: Yes.

5 MR. SMEGAL: Is that your intention?

6 CHAIRMAN MERCADO: This committee needs to make a
7 recommendation to the full Board. So I would entertain a
8 motion to either accept or reject these resolutions.

9 MR. SMEGAL: I'm prepared to make that motion, but
10 with the understanding that there will be an opportunity for
11 public input before the Board acts on these.

12 MR. EAKELEY: We're scheduled to vote on this this
13 afternoon or have the committees report this afternoon. If
14 it's the preference of the Board to have some opportunity for
15 comment before we vote, then we'll schedule it.

16 MR. SMEGAL: There may be none. I'm not suggesting
17 there's going to be any, but there has been no opportunity
18 for anyone in the public to examine either of these
19 documents, if I understand it correctly.

20 MR. EAKELEY: That's correct.

21 MS. BATTLE: I guess the other point that I'd like
22 to make is just that there are several variables, for

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1 example, the rent incentive, if we find someone to take up
2 the space, that could have an impact almost month to month on
3 this situation.

4 So what we're attempting to do now, as I understand
5 it, is to take some immediate action, stop gap so that we can
6 try to bring the budget into a better situation. Given where
7 we are, take a look at it almost month to month as it moves
8 along.

9 MR. EAKELEY: Yes.

10 CHAIRMAN MERCADO: That is correct.

11 MR. RICHARDSON: If I might, just to clarify Ms.
12 Battle's concern there, this is basically a worse case
13 scenario budget; that is, if we do not rent the space the
14 entire year. You are correct. If we do, which we do have a
15 couple of people looking at space now, if we can get them
16 under a contract, it will decrease the burden on us.

17 CHAIRMAN MERCADO: Any other discussions?

18 (No response.)

19 CHAIRMAN MERCADO: Hearing none, I would entertain
20 a motion to either accept or reject the resolution.

21 M O T I O N

22 MR. SMEGAL: So moved.

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1 MR. BRODERICK: Seconded.

2 CHAIRMAN MERCADO: You're accepting?

3 MR. SMEGAL: Yes.

4 CHAIRMAN MERCADO: All those in favor?

5 (A chorus of ayes.)

6 CHAIRMAN MERCADO: Opposed?

7 (No response.)

8 CHAIRMAN MERCADO: Abstention?

9 (No response.)

10 CHAIRMAN MERCADO: Motion carries. Now the second
11 resolution on the on-site reviews.

12 M O T I O N

13 MR. SMEGAL: Move to approve the resolution and
14 recommend to the Board that it be approved.

15 MR. BRODERICK: Seconded.

16 CHAIRMAN MERCADO: All those in favor?

17 (A chorus of ayes.)

18 CHAIRMAN MERCADO: Opposed?

19 (No response.)

20 CHAIRMAN MERCADO: Abstention?

21 (No response.)

22 CHAIRMAN MERCADO: Motion carries. I would

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1 instruct the secretary, please, if we could have copies of
2 these to give to members of the public so that they can
3 review. If there is a concern or a need to have some input
4 from the public on these particular resolutions at the full
5 Board, they'd be allowed to do so.

6 MR. EAKELEY: Or they can attack us at the break.

7 CHAIRMAN MERCADO: There are no other official
8 items on the agenda for the Audit and Appropriations --

9 MR. SMEGAL: The resolution with respect to on site
10 was corrected, as the distinguished member from Missouri
11 pointed out.

12 MR. EAKELEY: Very distinguished member from
13 Missouri pointed out.

14 CHAIRMAN MERCADO: Yes. I know that we'll deal
15 with this at full Board, but the Audit and Appropriation
16 Committee needs to be looking at their calendar in between
17 here and the time of the calendar dates of the full Board
18 meeting because we're going to need to meet some time later
19 on this month.

20 MR. EAKELEY: Will the Chair entertain a motion for
21 adjournment of the Audits and Appropriations Committee?

22 CHAIRMAN MERCADO: Sure would.

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M O T I O N

1

MR. EAKELEY: So moved.

2

3

MR. SMEGAL: Second.

4

CHAIRMAN MERCADO: All those in favor?

5

(A chorus of ayes.)

6

CHAIRMAN MERCADO: Adjourned.

7

(Whereupon, at 10:55 a.m., the meeting was

8

adjourned.)

9

* * * * *

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