

LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

MEETING OF THE
FINANCE COMMITTEE

OPEN SESSION

Tuesday, October 19, 2010

8:00 a.m.

Hyatt Regency Hotel
320 West Jefferson Street
Louisville, Kentucky 40202

COMMITTEE MEMBERS PRESENT:

Robert J. Grey, Jr., Chairman
Sharon L. Browne
Martha L. Minow (by telephone)
The Reverend Joseph Pius Pietrzyk, O.P.
John Henley (non-director member)
John G. Levi, ex officio

OTHER BOARD MEMBERS PRESENT:

Victor B. Maddox

STAFF AND PUBLIC PRESENT:

Rebecca Weir, Special Counsel to the President
David L. Richardson, Treasurer and Comptroller
Thomas Coogan, Assistant Inspector General for
Investigations, Office of the Inspector General
David Maddox, Assistant Inspector General for
Management and Evaluation, Office of the Inspector
General
John Constance, Director, Office of Government
Relations and Public Affairs
Alice C. Dickerson, Director, Office of Human Resources
Robert E. Henley, Member, LSC Finance Committee
Richard A. Cullison, Executive Director, Legal Aid of
the Bluegrass

Don Saunders, National Legal Aid and Defenders
Association (NLADA)

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

2 (8:00 a.m.)

3 CHAIRMAN GREY: I'd like to call to order the
4 meeting of the Finance Committee.

5 Martha, can you hear me all right?

6 DEAN MINOW: Yes. Wonderful, thank you.

7 CHAIRMAN GREY: Good. Do I have a motion for
8 the approval of the agenda?

9 M O T I O N

10 DEAN MINOW: So moved.

11 CHAIRMAN GREY: Second?

12 FATHER PIUS: Second.

13 CHAIRMAN GREY: All in favor say aye.

14 (A chorus of ayes.)

15 CHAIRMAN GREY: Opposed, no.

16 (No response.)

17 CHAIRMAN GREY: The agenda is approved.

18 Next is the approval of the minutes of
19 September 21st. Are there any corrections to the
20 minutes?

21 (No response.)

22 CHAIRMAN GREY: If not, I'd entertain a motion

1 for their acceptance.

2 M O T I O N

3 DEAN MINOW: So move.

4 CHAIRMAN GREY: Second?

5 MS. BROWNE: I'll second.

6 CHAIRMAN GREY: All in favor say aye.

7 (A chorus of ayes.)

8 CHAIRMAN GREY: Opposed, no.

9 (No response.)

10 CHAIRMAN GREY: All right. David, why don't
11 you take a shot at leading us through the next items.

12 MR. RICHARDSON: Okay. For the record --

13 CHAIRMAN GREY: Oh, by the way, let's go
14 around the room so that Martha can hear who's in the
15 room. And if you'd state your name loudly, then we
16 will have everybody on the record.

17 MS. BROWNE: Sharon Brown.

18 FATHER PIUS: Father Pius Pietrzyk.

19 MR. LEVI: John Levi for about ten minutes.

20 MR. RICHARDSON: David Richardson.

21 MS. WEIR: Rebecca Weir.

22 MS. BATIE: Pat Batie.

1 MR. COOGAN: Tom Coogan.

2 MR. D. MADDOX: David Maddox.

3 MR. CULLISON: Dick Cullison.

4 MR. CONSTANCE: John Constance.

5 MR. HENLEY: Bob Henley.

6 CHAIRMAN GREY: Did you get all that, Martha?

7 DEAN MINOW: Thank you.

8 CHAIRMAN GREY: You got it.

9 David?

10 MR. RICHARDSON: In your Board book, on page
11 117, there's an October 5th memorandum which goes
12 through the financial report for the 11-month period.
13 The budget report for this 11-month period shows that
14 we are doing quite well as far as our finances go.

15 I will begin by looking at the basic field
16 programs. We do have a budget for the year of
17 \$395,500,000. We have contracted for all of that
18 money, and have expenses for \$394,580,000. And there's
19 currently a remaining balance of \$917,000.

20 That is comprised of two areas. We still have
21 money set aside for the Wyoming Legal Services, and
22 then we have money for American Samoa, of which we do

1 not have a program in that area. We're still pursuing
2 that.

3 CHAIRMAN GREY: Question?

4 MS. BROWNE: I'm new to the committee, and so
5 I'm assuming that my questions are going to be really
6 basic and you've covered this in the past.

7 But why do we still have remaining funds for
8 Wyoming? I understand American Samoa. We don't have a
9 program. What happens to those funds?

10 MR. RICHARDSON: The Wyoming money has been
11 sitting there for a year while they make some
12 adjustments in their program. It's my understanding
13 that that money will still go to them once the issues
14 are solved. It's a new program.

15 They got the funding this year based on the
16 formula. This money is left over from 2008. And in
17 that particular year, we had a new grantee who was on
18 interim funding, and there was some setup and
19 compliance issues. And once they come into full
20 compliance, it's my understanding they will get that
21 money.

22 MS. BROWNE: And what happens to the money for

1 American Samoa?

2 MR. RICHARDSON: What we did last year was we
3 took the prior year money, and we folded it into basic
4 field, and we provided a pro rata share to every
5 grantee throughout the United States. And it's my
6 understanding we will do that again until we find
7 somebody who will come forward to provide services to
8 those areas.

9 MS. BROWNE: My question is, when we do a pro
10 rata share for each of the grantees from this American
11 Samoa, it's just kind of like a gift to these grantees.
12 Don't they have to provide some justification on how
13 they're going to use the money?

14 MR. RICHARDSON: They do not because our
15 funding formula is provided to us by Congress. So we
16 take the money that's appropriated, add the prior year
17 American Samoa money, and then grant it on the formula
18 basis.

19 CHAIRMAN GREY: I'll do a follow-up question
20 for you.

21 MS. BROWNE: Good.

22 CHAIRMAN GREY: Has there ever been any

1 consideration of money not expended for the purpose for
2 which it was allocated on a different basis other than
3 pro rata? Have you ever thought about saying --

4 MR. LEVI: Are we allowed to?

5 CHAIRMAN GREY: Well, that's my question. Is
6 there a basis upon which that can be done?

7 MR. RICHARDSON: Yes. My understanding under
8 the appropriation law, that we cannot. Until the money
9 is granted to a grantee, it remains in the Basic Field
10 line. What we do have in Grants from Other Funds is
11 when we have awarded the money and there is a
12 questioned cost, or there are fund balance issues, or
13 somebody sells a building and the money comes back to
14 the Corporation, that money, then -- the congressional
15 intent has been met. It has been awarded, and it now
16 comes back to the Corporation.

17 We can then use that money for emergency
18 grants, special circumstance grants. It has been used
19 to support different initiatives in the Corporation
20 years ago, and it was decided under a prior Board that
21 the money should go back to the field. So we've kept
22 it separately to do that.

1 MS. BROWNE: Is there any way that -- I know
2 it's pro rata. But could it -- say, for example, in
3 the Appalachia area they need more personnel, more
4 attorneys. But they need more funds to be able to hire
5 the attorneys. So is there anyway to adjust the pro
6 rata that would go to, say, "AppalReD"?

7 MR. RICHARDSON: It is my understanding that
8 there is not. It is totally formula-driven.

9 MR. LEVI: But what you're saying is we could
10 make a separate grant from those other reserve funds?

11 MR. RICHARDSON: Yes. From the Grants from --

12 MR. LEVI: Now I want to ask another
13 follow-up, which is American Samoa. So nobody is
14 covering that area at all now?

15 MR. RICHARDSON: That is correct, sir. There
16 is no service in that area.

17 MR. LEVI: Even a grantee somewhere else?

18 MR. RICHARDSON: That's correct. A couple of
19 grantees were approached, and it was just
20 cost-prohibitive for them to undertake the services.

21 MR. LEVI: Too far. Understand.

22 CHAIRMAN GREY: Go ahead.

1 MR. RICHARDSON: The next line that I'll talk
2 about is the U.S. Court of Veterans Appeals. And of
3 course, that is a pass-through grant. This year the
4 court gave us \$1,820,000. We awarded \$1,805,000.
5 We've kept aside \$15,000 for the administrative costs.

6 The folks who are handling that through the
7 Office of Program Performance and our Legal Affairs
8 Office are providing me their time, and we should be
9 charging the administrative costs to that in September.

10 There was a small amount of carryover the year before,
11 \$312 that was remaining, so that also will come into
12 play when we pay the administrative cost.

13 The Grants from Other Funds, as I stated, is
14 money that comes back from the field. The largest
15 amount of that at this point is a building that was
16 sold by a grantee, or actually, a program that is no
17 longer a grantee. We received \$450,000. And then this
18 year, the program who assumed the service in that
19 particular area wanted to purchase a building, and they
20 asked for 300,000 and we provided that to them.

21 The technology, of course, you've heard about
22 that the last few meetings. And this year we've got a

1 budget of \$3.4 million. \$71,000 has been spent this
2 year as far as net. There was a couple of grants that
3 were made that totaled like \$140,000, but then we got
4 \$70,000 back from canceling grants and money being
5 returned from grantees who didn't need the full amount
6 that was allocated to them for their technology.

7 FATHER PIUS: Why is there so much left?

8 MR. RICHARDSON: The grants have not been made
9 this year.

10 FATHER PIUS: But we stopped at, what, just up
11 to August, though. I mean, this is for the whole year.

12 MR. LEVI: I think it's got --

13 MR. RICHARDSON: That's right, because we have
14 a competition process that starts in March and usually
15 culminates with awards made in September.

16 FATHER PIUS: Oh, okay. Got it.

17 CHAIRMAN GREY: Let me do this. Because we've
18 got Martha on the phone and others listening and
19 everybody doesn't know everybody, let's identify
20 ourselves each time we speak. Okay?

21 FATHER PIUS: This is Father Pius again. And
22 that'll then just be -- because we're waiting on the

1 holdup on those funds, those will just be carried
2 through to the next year and added to whatever
3 appropriation might be made for the next fiscal year?

4 MR. RICHARDSON: That is correct, sir.

5 Within the Management and Grants Oversight, we
6 do have a budget of \$20,500,000, of which an 11-month
7 budget comes out to approximately \$18,800,000. We have
8 spent, to date, \$14,570,000. So we have remaining
9 funds at this point of \$4.22 million. That money,
10 along with any money that remains, of course, from
11 September will go to help operations next year.

12 In the memo on page 118 in the Board book,
13 I've laid out some of the reasonings that we have the
14 remaining funds. Certainly the presidential search
15 funds, we've not received all the bills for that since
16 it has not been finished, so there's money for that.
17 There's engineering and network services that have not
18 been completed; consulting for the program visits, the
19 program quality visits, and some of the compliance
20 visits.

21 Capital Expenditures: you moved money in July
22 to purchase video equipment. That equipment has not

1 yet been purchased. We hope to do that in the next two
2 to three weeks. And that money will roll forward into
3 next year's budget.

4 Capital Expenditures Addition is that we're in
5 the middle of a renovation process at the Corporation,
6 having to wait on D.C. to get permits and inspections.

7 That work started two weeks ago; we hope to get it
8 completed by the first week in November.

9 Certainly with the consultants with the
10 program visits and not spending all the -- having the
11 consultants come in and travel for us, there's
12 additional money for travel, for the presidential
13 search, for the program visits and the quality visits,
14 and also the compliance and enforcement visits.

15 When we look at the LRAP money, when we look
16 at the Herbert S. Garten Loan Repayment Assistance
17 Program, we do have a budget there of \$2.69 million.
18 This year we forgave \$527,000 in prior year loans.
19 When we look at the 11-month budget, it was \$2.46
20 million, so there's 1.9 for the 11-month period.

21 We do have that money allocated --

22 CHAIRMAN GREY: This is Robert. Just for

1 everybody who's here for the first time, what's the
2 basis upon which loans are forgiven?

3 MR. RICHARDSON: Each loan is for a year. We
4 make it in two payments currently. And as long as a
5 recipient is in good standing in their program,
6 continuing to work and do good work, their loan is
7 forgiven. There have been a few occasions this year
8 where people have left to take higher-paying jobs.
9 Those loans will be repaid.

10 In addition to that, we've got -- let me go
11 back and repeat a little bit about the loan repayment
12 assistance program since we do have new people here.
13 We operate on a three-year cycle. And if we have a
14 million two, say, in money for this year, we would
15 grant \$400,000 for the 2010 recipients. We would then
16 earmark 2011 and 2012 funding of \$400,000 each so that
17 we spend the full amount in three years, since it's a
18 three-year program.

19 There is some attrition in the program as
20 people come and go. So when they leave, we use that in
21 the next year's appropriations cycle to award it to new
22 people. So what you see here in the remaining funds is

1 for two additional years out that we will be making
2 payments for. This year we had 94 loan recipients, and
3 they get up to \$5600.

4 MS. BROWNE: This is Sharon. You said that
5 this is on a three-year cycle. Now, is it only for
6 this loan repayment program that it's a three-year
7 cycle, or is the entire budget set on a three-year
8 cycle?

9 MR. RICHARDSON: No. Just this --

10 MS. BROWNE: Just the loan repayment?

11 MR. RICHARDSON: Just the loan repayment.

12 MS. BROWNE: Thank you.

13 MR. LEVI: This is John. I have one -- these
14 monies that are being held for a period of time till
15 they're spent, are they in any kind of an
16 interest-bearing --

17 MR. RICHARDSON: No, sir. They're held at the
18 U.S. Treasury. We'll pull money out of the Treasury as
19 we need it.

20 MR. LEVI: I see.

21 CHAIRMAN GREY: They get the interest.

22 MR. LEVI: They get the interest.

1 MR. RICHARDSON: And of course, nowadays -- I
2 think this year we're going to get in the neighborhood
3 of around --

4 MR. LEVI: What little it is.

5 MR. RICHARDSON: Yes. The interest rate, it's
6 really low. I think I reported at the last meeting I
7 had --

8 MR. LEVI: You mean our 501(c)(3) status
9 doesn't get us something?

10 MR. RICHARDSON: No. We had \$5 million in the
11 bank in the month of July and we earned like \$7
12 interest. I mean, it was atrocious.

13 CHAIRMAN GREY: Thank you, David.

14 MR. RICHARDSON: In the Office of the
15 Inspector General, they have a budget of \$5.9 million.
16 This 11-month period is \$5.4 million. They have spent
17 this year, through August, \$3,455,000, so they have
18 remaining funds at this point of \$1,984,000. And when
19 I say remaining funds, it's what I equate to the
20 variance in this particular circumstance.

21 They have been operating on a two-year plan to
22 spend their money because last year they asked for 3

1 million; Congress provided them \$4.2 million in March.

2 So we were halfway through the year, so they had to
3 gear up as to how to spend that money.

4 They put a two-year plan, which -- I hope they
5 don't mind me saying -- it's now turned into a
6 three-year plan because of getting people hired and
7 getting people on board. Their budget request for 2012
8 is the same money that they requested in 2011, so
9 they're anticipating this carryover to be spent out in
10 2011 and 2012. They were spending some of it this
11 year.

12 MS. BROWNE: This is Sharon. Another
13 question. I'm sorry. I'll bore you to death. But on
14 the OIG's budget, you said that they requested the same
15 amount as they requested in 2011 for 2012. Is that the
16 \$3 million or the \$4 million that Congress granted
17 them?

18 MR. RICHARDSON: I apologize, 4.2. After they
19 got the money and started to ramp up their spending,
20 they requested an equal amount that they received the
21 prior year.

22 MR. MADDOX: David, I have a question here.

1 It's Victor Maddox.

2 MR. RICHARDSON: Yes, sir.

3 MR. MADDOX: I'm looking at page 124 of the
4 book, Attachment C, and I'm just trying to understand
5 the process. I think we may have addressed this to
6 some extent in earlier meetings, but I need a
7 refresher.

8 You've got the FY 2009 budget for the OIG --

9 CHAIRMAN GREY: Hold on one minute. You're on
10 page 124?

11 MR. MADDOX: 124, Attachment C, the OIG
12 budget.

13 MR. RICHARDSON: Oh, yes.

14 CHAIRMAN GREY: Got it.

15 MR. MADDOX: And it's FY '09 budget, so the
16 prior actual years, the 2.992. That's the \$3 million
17 you referred to as the prior year budget?

18 MR. RICHARDSON: No. Prior year
19 appropriation. There was some carryover from that.

20 MR. MADDOX: Well, then you're talking about a
21 \$4.2 million number. And then I see an annual budget
22 in FY 2010 of 5.9. I don't understand where the 5.9

1 comes from.

2 MR. RICHARDSON: Because they had carryover.
3 When the money came in in 2009, where they asked for \$3
4 million and they got 4.2, it was in March. They
5 couldn't ramp up and spend that money that year in an
6 effective manner, so they developed a plan to spend it
7 over a period of time. So they got a \$4.2 million
8 appropriation and 1.7 in carryover from those 2009
9 funds.

10 FATHER PIUS: So it was March 2009 when they
11 got the \$4.2 million?

12 MR. RICHARDSON: Yes.

13 MR. MADDOX: So when Congress gave this
14 additional money, did Congress provide some directive
15 or explanation? I mean, just a bonus? I mean, was
16 this stimulus money?

17 MR. RICHARDSON: It was, "Thank you, here's
18 some money." It might be --

19 MR. MADDOX: There was no indication that
20 Congress had some particular concern that they wanted
21 OIG to address?

22 CHAIRMAN GREY: I think, Vic -- and John can

1 correct me on this -- but I think each part of it is,
2 as the organization ramps up, so does the
3 responsibility for oversight. But John, you may want
4 to address this.

5 MR. CONSTANCE: John Constance. It was a
6 negotiating item at the table between the Republicans
7 and the Democrats, frankly. I mean, essentially it
8 happened in the United States Senate, and it was the
9 price that was paid for the vote of the ranking member
10 of the Senate Appropriations, our Senate subcommittee,
11 in order to approve a significantly higher increase for
12 LSC.

13 We have been doing, again, by the standards of
14 the Hill, very well over the last three to four years
15 in terms of increases. By the standards of what we
16 identify as our need, as you've heard the last day, no,
17 we haven't. But we've gone up 17 percent in the last
18 three years. We hit the high number this year; that
19 will be 22 percent over the last four years.

20 So again, we're doing well in that regard.
21 But essentially, every year, in order to get the
22 approval of both sides of the aisle, there's always a

1 negotiable item. And that year it was, fine, more
2 money, but increase funding for the IG.

3 MR. MADDOX: So is the baseline budget for
4 OIG, then, going forward -- is it 5.9 or is it 4.2?

5 CHAIRMAN GREY: 4.2, with the carryover for
6 budget. Is that right?

7 MR. RICHARDSON: For budget purposes, and
8 maybe Dave will speak to it, the budget going forward
9 includes carryover. And we've discussed this. So
10 currently it's 5.9. I think next year it's \$6 million.
11 We'll look at that time just in a moment.

12 But if they spend all that money, we see that
13 there's going to be a need in 2013 for a significant
14 increase for the IG for them to be able to maintain
15 operations.

16 MR. LEVI: They explained that at the
17 September -- their budget presentation. They explained
18 this presentation then.

19 MR. D. MADDOX: If I may --

20 MR. LEVI: Isn't that correct?

21 MR. D. MADDOX: Yes, that is correct. If I
22 may, this is Dave Maddox, assistant inspector general

1 for management and evaluation.

2 For planning purposes, the OIG budget is
3 approximately 1 percent of LSC's overall budget,
4 including basic field and management as well. So for
5 planning purposes, that's something for the Board to
6 keep in mind. That's the budget mark that we produce
7 when we're looking at the annual appropriation request.

8 We have this carryover money. It's
9 approximately going to be \$2 million into next year.
10 We have a number of procurements in process, but those
11 are in process. The dollars are not spent at this
12 point in time. But I think that 1 percent figure is
13 how we earmark our OIG budget and our request.
14 Hopefully that answers the question.

15 MR. MADDOX: Yes. Can I just have one
16 follow-up? That would be helpful.

17 MR. D. MADDOX: Sure.

18 MR. MADDOX: Wholly apart from carryover and
19 negotiations and the like, we've got a variance of
20 operating expenses of 96 percent. And I don't
21 understand how that happens. I mean, that doesn't
22 sound like budgeting to me. Is there some simple

1 explanation for that?

2 MR. D. MADDOX: If I may, that's where we put
3 our contingency funds. So with this two-year plan, we
4 have certain dollars we know we're not going to spend
5 this year. So in this case, we roughly moved a million
6 dollars, earmarked it, and in conversations with David
7 of the appropriate place to put a contingency fund, he
8 said that was the appropriate place to carry over into
9 the next year.

10 MR. MADDOX: But we don't ordinarily budget a
11 million one for operating expenses. Right?

12 MR. D. MADDOX: That is --

13 MR. RICHARDSON: That's correct.

14 MR. D. MADDOX: That is correct.

15 MR. MADDOX: It's more like \$500,000.

16 CHAIRMAN GREY: Let me kind of ask an obvious
17 question. But I think part of what we are trying to
18 do, from a finance standpoint, at least, is to, I
19 understand, appreciate the fact that money comes in in
20 different ways for different reasons.

21 And in order to follow that expenditure,
22 you've got to appreciate the fact that whoever gets the

1 money, whether it's us or the IG, has to know a plan
2 for it to spend it down. And if you get it faster than
3 you've got a plan to spend it down, you've got to
4 reserve it. I mean, that's essentially what has
5 happened here.

6 Now, there's a second follow-up question, and
7 that is, if you -- I'm listening to David say that
8 we're essentially going to think about budgeting based
9 on the percentage of your gross. And we're going to
10 work with them on that in understanding how that works.

11 I understand how that works. But we're also
12 going to try to work with each entity in LSC to
13 determine why you need that amount of money, and if we
14 have that amount of money, what are we getting in terms
15 of services.

16 So we're going to try to match with every
17 entity the service component or the execution of
18 responsibility based on the money. And then I think we
19 can have a conversation about why we have money and how
20 we spend it. But if it's just out there as a
21 percentage of another number, that doesn't help us
22 understand whether we're getting value for the money.

1 And it doesn't matter whose organization in our larger
2 group it is.

3 And so we're going to -- what Finance is going
4 to try to do is we're going to work on that. We're
5 going to work on matching services with money, and then
6 letting the entities respond to that, and hopefully
7 come up with a better idea of how to spend the money
8 that we got. And maybe we can avoid some of the
9 ideas -- not ideas -- some of the issues that come up
10 about if you've got this money, what is it you're going
11 to do with it.

12 It's interesting to be able to say we've got
13 this money and we're going to put it in reserve, and
14 we'll think about it and we'll tell you later about
15 what we're going to do with it, as opposed to having a
16 conversation and saying, here's a need. Let's consider
17 those as a way of adding value to the services that we
18 render.

19 So I think you're on the right track. But we
20 just haven't gotten our arms around this.

21 MR. MADDOX: Oh, I'm not being critical.

22 CHAIRMAN GREY: No, no. I know you're not.

1 MR. MADDOX: I'm just trying to understand
2 what management's data is --

3 CHAIRMAN GREY: Well, we are, too. And part
4 of that is we're not an Audit Committee. We're a
5 Finance Committee. So we'll give you a chance to do
6 some -- ask them further questions. But what we will
7 do is raise the questions.

8 FATHER PIUS: Helping me to understand where
9 the money comes from, to what degree of specificity do
10 we get from Congress in terms of the appropriation? Do
11 we get a lump sum, or do they say, this money goes to
12 the IG; this money goes to field grants; this money
13 goes to the Corporation?

14 MR. RICHARDSON: It is given to us by line
15 item.

16 FATHER PIUS: How many lines are there on
17 those -- how many line items are there in the budget?

18 MR. RICHARDSON: The ones that are identified
19 with the Roman numerals are the numbers, is the lines
20 that they fund, with the exception of Grants from Other
21 Funds.

22 FATHER PIUS: The line item on your memo?

1 MR. RICHARDSON: Right. And the U.S. Court of
2 Veterans Appeals, which is a pass-through.

3 FATHER PIUS: Yes. That's very helpful.
4 Thank you.

5 CHAIRMAN GREY: And Father and Sharon, one of
6 the things I'd like to do -- I probably should have
7 said this at the very outset -- is I'd like to set up a
8 meeting, and probably do it by conference call, to go
9 over process and procedure for us as a Finance
10 Committee to do our work, separate from this meeting.

11 FATHER PIUS: Great. That's very helpful.

12 CHAIRMAN GREY: I'd like to do that so we're
13 all on the same page.

14 DEAN MINOW: That would be very helpful.

15 CHAIRMAN GREY: We're going to do it at
16 Harvard.

17 (Laughter.)

18 DEAN MINOW: Okay.

19 MR. RICHARDSON: One thing that I'd like to
20 clarify a little bit, and that is when John was talking
21 about the negotiation between the House and Senate, the
22 IG was not in those negotiations. They were still on

1 the \$3 million area that they thought they were getting
2 until the negotiations took place, and then it was
3 increased.

4 MR. LEVI: But it is a 1 percent.

5 CHAIRMAN GREY: Yes.

6 MR. RICHARDSON: The last thing that I was
7 going to go through, and David sort of mentioned here,
8 on page 19 was give the breakout of the remaining funds
9 for the Inspector General. We go through the two-year
10 spending plan. The largest amount, being the operating
11 money, is where the house the money for future years.

12 They have some IT purchases that are in the
13 process, and some consulting that's being done to
14 upgrade their systems. They currently have 26 field
15 positions, and there was 28 budgeted for the year.

16 So that is the report on August. And if
17 there's any further questions, you can feel free, after
18 you look at this, when you get back to your offices,
19 give me a call. Be glad to answer anything that you
20 may have, or if you have additional questions during
21 the day, let me know and we'll sit down and look at it.

22 DEAN MINOW: I have one. When the Congress

1 makes the appropriation for the IG, do they have
2 percentages of the budget before them, what percentage
3 is going to the different departments?

4 CHAIRMAN GREY: John?

5 MR. CONSTANCE: No. That's not normally a
6 consideration on that line item or any line item on the
7 budget.

8 CHAIRMAN GREY: The answer is no. It just
9 ends up becoming part of the negotiation at the end of
10 the day, not at the beginning of the day.

11 DEAN MINOW: I see. And so it would be very
12 unusual to do it that way.

13 CHAIRMAN GREY: Yes.

14 Dave?

15 MR. RICHARDSON: Actually, I think the next
16 area is for John Constance to go through the
17 appropriations process for 2011.

18 CHAIRMAN GREY: John, come on up.

19 MR. CONSTANCE: For the record, this is John
20 Constance, director of Government Relations and Public
21 Affairs. One of my favorite jobs is trying to explain
22 what Congress does.

1 (Laughter.)

2 MR. CONSTANCE: And I see my colleague now,
3 Don Saunders, is in the room, so he can help me out
4 here if I fail in any way in this task.

5 I'll tell you where we are in terms of the
6 2011 budget process. The House and Senate have
7 reported out their bills. The CJS bill has been
8 reported out in both houses.

9 To refresh everyone's memory, the bottom line
10 on the House bill is \$440 million for 2011. The number
11 in the Senate bill is \$430 million for 2011, with the
12 additional language in the Senate bill indicating that
13 they are holding \$10 million, which would essentially
14 be the increase from 2010 to 2011 -- they're holding
15 that, awaiting a certification that we have completed
16 all of the recommendations made to us by GAO, as well
17 as reconciliation of all of the recommendations from
18 previous IG reports.

19 So those are the two bills as they exist now.

20 As I reported yesterday before the Governance
21 Committee, I think that we're in good shape in terms of
22 reconciliation and implementation of all of the

1 recommendations. We have just three additional ones in
2 the GAO report area, and we're in dialogue with them to
3 see that those are done by the end of the year.

4 The Congress, prior to going into recess,
5 passed and sent to the President a continuing
6 resolution at current levels. That is in effect until
7 December 3rd. And what that anticipates is the
8 Congress will be coming back into session November
9 15th, after the election, to take up appropriations as
10 one of their principal responsibilities when they get
11 back.

12 A couple different things can happen at that
13 point, and right now, the two principal items that
14 everyone is looking at are the possibility of an
15 omnibus bill that pulls everything together in terms of
16 funding that has not been approved and sent to the
17 President, and pass that as one package.

18 Another possibility would be passing another
19 continuing resolution and punting, if you will, to next
20 year, doing a long-term continuing resolution and let
21 the next Congress, when that Congress is organized in
22 January, take up the appropriations bills. That's been

1 done in the past. Both things have been done in the
2 past, obviously.

3 In terms of the politics of that, right now,
4 with the current majorities in the House and Senate, if
5 the majority wanted to do an omnibus bill today, they
6 could have. They could have moved that through with
7 what is anticipated.

8 Regarding the election, even though it will be
9 a lame duck session, the question is whether the votes
10 are there for the majority to do what they wish to do
11 regarding an omnibus in that window in November and
12 December. And again, that's anybody's guess. That
13 will be negotiable.

14 When an omnibus bill is put on the floor,
15 however, one thing that happens very similar to a
16 conference bill that is regular order is that the four
17 corners, as they call them, the majority and the
18 minority leaders for our appropriations committees in
19 the House and the Senate, get together. And again,
20 these things are negotiated.

21 So what would be on the table for LSC would be
22 a 440 number as the high mark for the House and 430 for

1 the Senate. And I don't know that one can assume that
2 the difference is split. I think the House feels -- I
3 think Chairman Mollohan feels very, very strongly about
4 his number, and we'll see how that plans out. But
5 right now, I think there's clearly a very, very
6 committed effort on the House side regarding the 440
7 million.

8 So that's what I know.

9 CHAIRMAN GREY: Questions?

10 (No response.)

11 CHAIRMAN GREY: Thank you.

12 MR. CONSTANCE: Thank you.

13 CHAIRMAN GREY: Dave?

14 MR. RICHARDSON: The next item on the agenda
15 is the proposed temporary operating budget. It's on
16 page 126 of your Board book, beginning with the
17 memorandum. What I've done is I've laid out the
18 different attachments that we have. There's a
19 resolution that we're asking you to pass today.

20 In July, we asked for temporary operating
21 authority, which you approved, that gave us
22 authorization to continue into this fiscal year on a

1 basically level playing field from last year.

2 What I've identified in this process is the
3 carryover, along with the continuing resolution that
4 John was just speaking about. Last year's 2010
5 funding, the appropriation is 420 million. I have
6 estimated carryover of \$10,150,000.

7 On page 133 in the chart, you'll see how that
8 is broken down. The 917 just identified for basic
9 field will go forward into next year. The U.S. Court
10 of Veterans Appeals, we don't really have a firm figure
11 as to what the administrative cost is there, so I've
12 estimated that it's going to be about \$10,000, and I've
13 left \$5,000. If that does change, when we come back in
14 January we'll make a modification there along,
15 hopefully, with the appropriation.

16 The Grants from Other Funds, you'll see that
17 there's an increase there, and that increase is from
18 funds that we have received this year in the grants
19 process, grants being returned. So that line will
20 increase going forward into 2011.

21 CHAIRMAN GREY: To what number?

22 MR. RICHARDSON: \$757,000.

1 CHAIRMAN GREY: And what planning are we going
2 to do to spend that down?

3 MR. RICHARDSON: At this point it's been used
4 for special grants or emergency grants. So there
5 hasn't been a whole lot of testimony, a whole lot of
6 thought, going into how it's been spent because it's
7 been spent on an emergency basis.

8 CHAIRMAN GREY: Sharon?

9 MS. BROWNE: Can you give me an example of
10 what would be considered an emergency grant?

11 MR. RICHARDSON: Katrina. We had -- yes, we
12 had money that went to the Gulf area because of the
13 hurricane. We've also had -- on a Native American
14 reservation a few years ago, we had a building burn
15 down. And they had insurance to \$35,000, and it cost
16 \$50,000 to rebuild. So we gave them the additional
17 money to make up the difference so that they could
18 rebuilt.

19 MS. BROWNE: Have you sent any emergency funds
20 because of this oil spill in the Gulf?

21 MR. RICHARDSON: We have not as yet.

22 MS. BROWNE: Has there been a request?

1 MR. LEVI: They're coming today.

2 MS. BROWNE: Oh, okay. But we haven't
3 received any formal request for emergency funds?

4 MR. LEVI: No. There was a discussion from
5 them as to whether they would request \$100,000 or
6 something. But they did not actually come forward.

7 CHAIRMAN GREY: In previous years, what has
8 been the allocation of Grants from Other Funds? What's
9 the fluctuation?

10 MR. RICHARDSON: Last year we knew that there
11 was a grant coming for \$300,000 for the building
12 because that had been in process for a number of -- so
13 that was awarded in November. That's all the money
14 that was spent out of that fund last year.

15 MR. LEVI: Is this a fund from which,
16 carefully, we could develop some pilot programs or
17 initiatives?

18 MR. RICHARDSON: It is, sir.

19 MR. LEVI: That's obviously not -- having a
20 new head coming in, but it gives some opportunity, and
21 it answers Sharon's earlier question. When a program
22 says, we've exhausted everything and we've got people

1 down --

2 CHAIRMAN GREY: It's also, I think, another
3 opportunity to engage the field in discussions about --

4 MR. LEVI: Yes. It may be a race to the top.

5 CHAIRMAN GREY: Okay.

6 MR. LEVI: It's not that much money, though.

7 MR. RICHARDSON: The next line is the
8 technology. And you'll see there that I did not
9 include the carryover from 2010. When this was being
10 developed, there was still some thought that those
11 grants would be given. It does not hurt that we go
12 ahead and pass this budget as it now stands. We will
13 come back in January and provide you additional
14 information, hopefully appropriation and firm carryover
15 figures, which that will include.

16 CHAIRMAN GREY: Additional questions?

17 (No response.)

18 CHAIRMAN GREY: Motion on the resolution?

19 M O T I O N

20 MS. BROWNE: I'll move that we pass the
21 resolution, or recommend it.

22 CHAIRMAN GREY: Recommend it. Right.

1 MR. RICHARDSON: There is one change in the
2 resolution that I neglected to change, and this is in
3 the "NOW, Therefore." Unfortunately, I put 2010. It
4 should be 2011.

5 CHAIRMAN GREY: With that change, is there a
6 second to Sharon's motion?

7 DEAN MINOW: Second.

8 CHAIRMAN GREY: Father Pius seconded. All in
9 favor say aye?

10 (A chorus of ayes.)

11 CHAIRMAN GREY: Opposed, no.

12 (No response.)

13 CHAIRMAN GREY: The recommendation on the
14 resolution is adopted.

15 MR. RICHARDSON: Thank you, sir.

16 CHAIRMAN GREY: David.

17 MR. RICHARDSON: There's one additional item
18 dealing with the HEART Act, and that starts on page 135
19 of your Board book.

20 This is an amendment to our 403(b) retirement
21 plan. There was a law passed in 2008 that they've just
22 issued regulations on, and it's the Heroes Earnings

1 Assistance and Relief Act, the HEART Act. And it
2 provides benefits and special employment and benefits
3 rights to those folk who leave employment to serve in
4 the military and then go back to their jobs. And this
5 is the first amendment under USERA, the Uniform
6 Services Employment Reinvestment Act -- or Reemployment
7 Act -- of 1994.

8 This is an administrative item that we need to
9 have pass so that the staff can include it in our
10 retirement plan so that our plan will be in compliance
11 with ERISA.

12 FATHER PIUS: Do we have any idea how many
13 employees would be affected by this?

14 MR. RICHARDSON: At this point, there is none.

15 A few years ago we did have people in the Army
16 Reserve, but currently we do not have any that I'm
17 aware of. And certainly no one has gone to serve in
18 the military recently.

19 MS. DICKERSON: This is Alice Dickerson,
20 director of the Office of Human Resources. This act,
21 as David said, will not affect any current employees.
22 And also, the mandatory provision and the voluntary

1 provisions, as of right now, would have no effect on
2 the plan at all. We're required to go ahead and make
3 them, but they would not have any effect on the plan
4 because we don't have any of these actual provisions in
5 the plan.

6 The concern, for instance, accelerated that if
7 the employee dies while in military service,
8 accelerated life benefits and other kinds of survivor
9 benefits. They do not make any difference in the
10 amount of the death benefit. And then it also provides
11 for optional benefit accruals, and it lays out how we
12 would have to do that.

13 The one area where it could affect us if we
14 had military personnel would be with the differential
15 wage payments. And our definition of compensation
16 would include the differential wage payment. This
17 changes the tax treatment of payments of that nature.
18 And so they would have to be counted as W-2 wages.

19 However, their contributions would not have to
20 be included in our discrimination testing, but they
21 would have to be included in our 415 annual edition,
22 and the annual benefits limits for compensation have to

1 include the differential pay.

2 It also includes some provisions for special
3 distributions, known as the qualified reservist
4 distribution, which is an in-service distribution. And
5 pursuant to this act, or this amendment, I should say,
6 these distributions are or will be exempt from the 10
7 percent early withdrawal tax.

8 I think that's about all. Unless someone has
9 some questions, that kind of sums up what the HEART Act
10 consists of.

11 CHAIRMAN GREY: Thank you, Alice.

12 Any questions for Alice?

13 (No response.)

14 CHAIRMAN GREY: Is there a motion that we
15 recommend the resolution to be adopted by the Board?

16 M O T I O N

17 MS. BROWNE: I'll move that we recommend the
18 HEART Act amendment resolution to the Board.

19 CHAIRMAN GREY: Is there a second?

20 DEAN MINOW: I second.

21 CHAIRMAN GREY: Thank you, Martha.

22 It's been moved and seconded. All in favor

1 say aye.

2 (A chorus of ayes.)

3 CHAIRMAN GREY: Opposed, no.

4 (No response.)

5 CHAIRMAN GREY: The resolution is
6 adopted -- the recommendation to recommend the
7 resolution is adopted.

8 All right. Public comment?

9 (No response.)

10 CHAIRMAN GREY: The public is silent.

11 Is there any other business? The other
12 business I would like to put on -- Martha, do you have
13 any comments or suggestions?

14 DEAN MINOW: No, thank you.

15 CHAIRMAN GREY: As I said earlier, I think it
16 would be helpful to us as a committee to have a meeting
17 and discuss how we want to handle the affairs of the
18 organization as members of the Finance Committee. And
19 I want to ask David to help us with organizing that
20 meeting.

21 We have done something that previous boards
22 have not done, and we've asked a lay expert to be a

1 member of the committee. Bob Henley, as a former
2 managing partner of the Richmond office of Ernst &
3 Young, has kindly agreed to provide us assistance in
4 that regard, and has already been very helpful in
5 trying to help us get our arms around this. But I
6 think, going forward, he will be most helpful, having
7 audited public companies for years and years.

8 And I am looking forward to us working
9 together to come up with an approach that gives the
10 Board a good handle on how money is being spent, why
11 it's being spent, to raise questions, and to give other
12 committees a chance to reflect on the most important
13 thing we do, and that is how we spend the money that we
14 have.

15 That will also, I think, be helpful when we
16 get to the report from the special committee that Vic
17 and I are chairing on grants, as that makes up the bulk
18 of the money that we have, and the oversight that's
19 attendant to that.

20 But overall, I'm very pleased. I'm excited
21 about the members of this committee. I think we will
22 have a very strong committee and be able to give good

1 guidance, I think, to the Board in that regard.

2 Any other comments or thoughts?

3 (No response.)

4 CHAIRMAN GREY: Motion to adjourn?

5 M O T I O N

6 DEAN MINOW: So move.

7 CHAIRMAN GREY: Second?

8 FATHER PIUS: Second.

9 CHAIRMAN GREY: All in favor say aye.

10 (A chorus of ayes.)

11 CHAIRMAN GREY: Opposed, no.

12 (No response.)

13 CHAIRMAN GREY: The motion is approved. We're
14 adjourned.

15 (Whereupon, at 8:55 a.m., the committee was
16 adjourned.)

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