

Past directors will say that; “No company is large enough to undertake the job that PCM does (that is not true)” or “No company will put the effort into doing a bid because they just assume that PCM will get it” (Very likely since PCM was usually involved in reviewing the bids).

However we have had some past success using the outside bid process. For example, the last time **item 2** was done for the manor painting budget was in the mid 90’s, a third party contractor underbid PCM by a substantial amount, \$0.48 per sq ft versus \$0.68 per sq ft. Not surprisingly, the following year, PCM’s cost estimates were in line with the outside contractor and the job came back in-house. Credit for lowering these painting costs for 3<sup>rd</sup> Mutual went to a past director, Ken Dooley. Unfortunately this has not been done again for the past 15 years. No director has been willing to pick up the gauntlet of getting outside bids for major jobs and we are dictated to by PCM who most directors trust explicitly even being aware of the “Credit Card and Incentive Bonus fiascoes.”

When a Director believes that he is doing a detailed line entry salary budget analysis, he must be prepared to use the information in **item 1** above. Look through all available detail and see how many of the pieces of the **salary budget** have been provided by PCM. If you do not have all the detail, you are incapable of establishing a true bottom-up salary budget. What you are actually doing in the yearly budget is accepting each of the above “undisclosed” parameters from PCM, without oversight, which results in a top down budget base on whatever salary PCM thinks is justified.

In my experience, PCM has only one objective in mind, “To make as high a budget as possible and come out with extra salary that could be used for undisclosed employee benefits and unexpected costs.” As I recall, we have never come in over budget and that can be the result of several things;

Exceptionally good estimating skills (by the boards, since they do the budget).

Over estimating the budget to ensure coming in under budget (by the boards/PCM).

Exceptionally “good” PCM cost/income management resulting in always coming in under budget. PCM gets awards for this, although, overestimating a budget can also result in having success in meeting a budget. We don’t really know for sure why we come in under budget.

When things go wrong, PCM says, “We only do what the boards tell us to do.” Therefore, when things go right it must be because, “That is what the boards told them to do.” As board members, how many of you can truthfully stand up and say that you have been instrumental in establishing each of the “Line Items” in the yearly employee salary budget?

Due to lack of knowledge, directors have been prone to confuse their understanding of the budget in such areas as; Incentive Bonus vs Safety Bonus or Salary vs Wages. By confusing the issue of salary with wages, one can erroneously assume that the detail that is done for union wages is done for the salaried staff, resulting in an open door for our budget to be exposed to the “Bell City Syndrome

Not knowing “What We Don’t Know” is deadly in business and that goes all the way from Enron, Countrywide, Fannie Mae, Bell City, etc., to LWV and the smallest Home Owner Association. Not considering the possibility of a faulty salary budget generation is being “willingly ignorant.” I don’t accuse anyone of fraud, however I will accuse the boards of lack of oversight and ethics if they do not look at all possibilities of how our money is being spent.

**If you would say to me that you don’t agree with my assessment that we have an exposure to excessive salaries for our PCM staff and will take steps to provide any necessary oversight, I can accept that. But, if you say that you have done everything**