

## **DRAFT – FOR DISCUSSION PURPOSES ONLY**

To the Board of Directors  
Libertarian National Committee, Inc.  
Washington, D.C.

In planning and performing our audit of the financial statements of the Libertarian National Committee, Inc. (the Committee) as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Committee's internal control over financial reporting (internal control) as a basis for designing our auditing procedures, for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Committee's internal control. Accordingly, we do not express an opinion on the effectiveness of the Committee's internal control.

Our consideration of the Committee's internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the Committee's internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in the Committee's internal control that we consider to be significant deficiencies.

A deficiency in the Committee's internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in the Committee's internal control, such that there is a reasonable possibility that a material misstatement of the Committee's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in the Committee's internal control that we consider to be material weaknesses.

### **SIGNIFICANT DEFICIENCIES**

A significant deficiency is a deficiency, or a combination of deficiencies, in the Committee's internal control, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We consider the following deficiencies in the Committee's internal control to be significant deficiencies:

### **Accounting Policies and Procedures Manual**

The Committee's Policies and Procedures Manual was last updated in June 2006. The purposes of such a manual are to ensure that proper accounting principles are being applied, that similar transactions are treated consistently, and that financial reports are produced in the form desired by management. A well-written accounting manual will aid in the training of new employees and will assist management in delegating and segregating duties. In addition, the process of developing the manual requires a comprehensive review of the existing accounting system, offering management the opportunity to eliminate or improve procedures and thereby create a more efficient and effective system.

### **Credit Cards**

During our audit, we noted several instances where credit card charges were not adequately supported with the proper documentation. To maintain adequate internal control over such expenses, we recommend that receipts for all charges or those over a predetermined threshold be attached to the corresponding credit card statement. We also noted that the Committee does not have a credit card policy that requires receipts for purchases above a certain threshold. We recommend that a credit card policy be implemented.

### **Segregation of Duties**

Due to the number of Committee employees, it is difficult to allow for complete segregation of duties and certain staff members have access to the accounting system or assets and also access to the Committee's donor database. As such, the potential exists that cash receipts and other deposits can be misappropriated and not timely detected. We noted that employees with access to the accounting system also make the bank deposits. Generally, we recommend that the same individuals not have the ability to manipulate data in both systems. We recommend that management review access controls and ensure the appropriate segregation of duties and a system of checks and balances.

## **BEST PRACTICE RECOMMENDATIONS**

In addition to the aforementioned significant deficiencies, we noted other best practice recommendations we believe merit the attention of management:

### **Fixed Asset Listing**

We noted that the Committee did not update its listing of fixed assets since last year, which led to an adjustment to record depreciation at actual year-end. We recommend the Committee review and update the schedule to include any new additions or disposals throughout the year.

### **Contracts**

Our audit disclosed that the Committee does not have written contracts with its petitioners or writers. We recommend that a written agreement be entered into with petitioners and writers, which documents the nature of services to be provided and the terms and conditions with respect to the amount of compensation/reimbursement to be paid.

### **Executive Director Expenses**

The Operations Manager reviews the Executive Director's credit card transactions. We recommend the Treasurer or other Board member review and indicate approval of the Executive Director's expenses, at a minimum, on a quarterly basis.

### **Allocation of Expenses**

During the course of our audit, we noted that expenses are coded by their natural expense category. As a result, additional time is required at year-end to allocate expenses to the various programs of the Committee based on management estimates of employee's time. To accurately reflect the cost of the Committee's programs, we recommend that program or department codes be set up in the accounting software. An expense that can be directly charged to one program objective can continue to be coded to its natural category, but then a corresponding entry should be made to allocate it to the program objective or function for that expense. An expense that benefits more than one program or is general administrative in nature can also continue to be coded to its natural category, but then should subsequently be allocated to the various programs based on the time spent by employees on each program. We recommend that all employees complete timesheets every pay period, allocating time spent to the programs and/or supporting services (G&A and Fundraising) functions.

### **Timesheets**

Our audit disclosed that not all Committee employees are required to complete timesheets or timesheets do not reflect actual hours worked. To more accurately allocate the time charged to projects, we recommend that all employees complete timesheets that reflect actual hours worked on the various programs and/or supporting services functions.

### **Personnel Files**

We noted that personnel files were not updated with current salary information for two employees tested. We also noted that employee performance reviews are not done on an annual basis. We recommend that all personnel files be reviewed and updated to ensure all files contain current information, and employee performance reviews are done on an annual basis.

### **Inventory**

During our audit, we noted that the Committee does not keep an inventory listing. We recommend the Committee establish a procedure to inventory promotional items on an annual

basis. The results of the year-end count should be reconciled to the general ledger and adjustments should be made to ensure accurate presentation of ending inventory.

### **Related Party Transactions**

We noted that the Committee's Policy Manual requires that all contracts or modifications thereto shall be in writing. The Chair shall approve any contract in excess of \$7,500. All contracts of more than one year in duration or for more than \$25,000 shall be reviewed and approved by General Counsel prior to signing by the Chair. Our audit disclosed that the Committee made payments to some related parties in the absence of a signed contract. In such cases, no contract was approved by General Counsel nor executed by the Chair. We recommend that agreements involving financial transactions with related parties be in writing and that they document the nature of the products or services to be provided and the terms and conditions with respect to the amount of compensation/reimbursement or other consideration to be paid. In addition, we recommend that such agreements be reviewed by management, approved by the Board of Directors and disclosed in a conflict of interest statement.

We also noted that previous financial statements did not fully disclose related party transactions. To better enable the Board to monitor and evaluate related party activity, we recommend that interim financial reports to the Board regularly divulge the status, nature and amounts with respect to transactions with related parties, including contributions, expenses, loans, commitments, guarantees or any other transactions.

### **Document Destruction/Whistle Blower Policies**

While the Sarbanes-Oxley Act does not apply to non-profit organizations, we are presenting, for your information, two provisions of the Act which should be implemented by all organizations. In fact, we recommend the following provisions be added to the policy manual:

- The Sarbanes-Oxley Act provides new protections for whistleblowers and criminal penalties for actions taken in retaliation against whistleblowers. It is illegal for an organization to punish the whistleblower in any manner. An organization must adopt procedures to handle complaints. The procedures should disclose a formal process to report and deal with complaints and retaliation.
  - The Sarbanes-Oxley Act addresses the destruction of litigation-related documents. The law makes it a crime to alter, cover-up, falsify, or destroy any document (or persuade someone else to do so) to prevent its use in an official proceeding. An organization should have a written, mandatory document retention and periodic destruction policy. Such a policy would help limit accidental or innocent destruction.
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**Libertarian National Committee, Inc.**

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**DATE**

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This information is intended solely for the use of the Audit Committee, Board of Directors and management of the Libertarian National Committee, Inc. and is not intended to be, and should not be, used by anyone other than these specified parties.

Bethesda, Maryland

**DATE**