Report of the 2014/2016
Libertarian Party Audit Committee

14 November 2015

Note: This report is not confidential.

EXECUTIVE SUMMARY

Article 10.2 of our bylaws requires that our financial statements conform to Generally Accepted Accounting Principles (GAAP). In addition, we are subject to reporting requirements by the Federal Elections Commission (FEC). The LNC has adopted policies and executed contracts to optimally control and manage the affairs, properties and funds of the Party. To meet all these obligations, staff are required to follow procedures and account for transactions correctly. The Audit Committee has found a number of violations of the Party's bylaws and LNC policies. Most but not all of the specific problems fall into one or more of the categories enumerated below.

1) Issue: Management bonuses for 2014 were overpaid by $11,732. Of that amount, $4,732 has been repaid. Mr. Benedict owes the Party $4,000 and Ms. Howell owes the Party $3,000.

   Recommendation: $4,000 should be deducted from Mr. Benedict's pay and $3,000 should be deducted from Ms. Howell's pay.

2) Issue: When the Audit Committee pointed out the need to repay the $11,732 of unearned 2014 bonuses, Mr. Kraus changed the accounting treatment of the Shaber bequest in a manner that would allow management to keep most of the 2014 bonus overpayments while telling the LNC that the bonuses had been repaid.

   Recommendation: The financial statements audited by our outside CPA firm correctly record the Shaber bequest revenue in 2014. Staff changed the accounting in QuickBooks to incorrectly record the Shaber bequest revenue in 2015. QuickBooks should be brought into conformance with the audited financial statements and GAAP by moving the Shaber bequest back to 2014, as was originally agreed upon.

3) Issue: The Party paid $8,186 of the Executive Director's relocation expenses, which was not authorized by his employment contract, by the employee handbook, or by the LNC. At most, then Chair Neale could have authorized up to $329 from his discretionary fund because $4,671 of his $5,000 allotment for the term was spent on other expenditures. Hence, Mr. Benedict owes the Party at least $7,857 and arguably $8,186 (not including the $4,000 owed for overpayment of bonuses).

   Recommendations: Assume that the Chair had the authority to authorize $329 of employee moving expenses from the Chair's discretionary fund. $7,857 (not including the $4,000 owed for overpayment of bonuses) should be deducted from Mr. Benedict's pay. Amend the standing rule concerning the Chair's discretionary fund to exclude using it for staff compensation.

4) Issue: Payroll/Overhead expenses cannot be allocated correctly on our 2014 financial statements due to staff's failure to comply with the time sheet policy adopted by the LNC in 2013.

Recommendations: Additional oversight should be provided to ensure LNC policies are faithfully executed.

5) Issue: Numerous other policy violations were noted in a review of staff time sheets, including granting vacation time/pay in excess of the generous policies in the employee handbook, abuses of compensatory time which frequently result in employees being absent from the office on standard workdays, overpaid holiday pay, employees not clocking out for lunch breaks, granting of additional substantive employee benefits not authorized in the employee manual, and employees not adhering to the standard work schedule listed in the employee manual.

Recommendations: Additional oversight should be provided to ensure LNC policies are faithfully executed. The Employment Policy and Compensation Committee should review vacation, sick time and other benefits to determine whether they are in line with industry standards.

6) Issue: The Party incurred close to $40,000 of debt for equipment acquisitions, in violation of the Party's bylaws and LNC policies. The Audit Committee does not know whether or not any officer or officers knew of these unauthorized purchases before they occurred.

Recommendations: Consider formal discipline of employees who encumbered the Party with unauthorized debt in violation of the Party's bylaws and LNC policies. Determine whether or not any Party officers were aware of these unauthorized purchases before they occurred.

7) Issue: Confidential. See the Confidential Section of this report, which may be found in another document.

Recommendations: Confidential. See the Confidential Section of this report, which may be found in another document.

SCOPE AND AUTHORITY OF THE AUDIT COMMITTEE

An Audit Committee is required by the Bylaws.

Bylaw Article 10.2 states "The National Committee shall cause an efficient double-entry system of accounts to be installed and maintained. Financial statements of the Party shall be prepared in accordance with Generally Accepted Accounting Principles (GAAP). Audits shall be performed annually by an independent auditor. The non-officer members of the National Committee shall appoint a standing Audit Committee of three members with power to select the independent auditor. One member shall be a non-officer member of the National Committee and the other two shall not be members of the National Committee. The Audit Committee shall clarify for the National Committee any recommendations made by the auditor."

Policy Manual Section 2.02.4 explicates the role of the Audit Committee:

> "The Audit Committee's tasks are to select an independent audit company and to direct the scale and scope of standard annual audits of the Party's accounting records and processes. Following receipt of the audit company's report, the Committee shall help the LNC interpret the audit results and assist the latter in preparing any action plans that might be needed to alleviate deficiencies."

Policy Manual Section 2.07.5 clarifies that the Audit Committee shall have access to corporate records:

> "Members of the National Committee and Audit Committee are entitled to inspect and copy books, records (including electronic records) and documents of the Libertarian National Committee, Inc. to the extent reasonably related to the performance of the member's duties to the corporation, including those duties as a member of a committee, but not for any other purpose or in any manner that would violate any duty to the corporation. Prior to obtaining copies the member shall execute a standard nondisclosure agreement. If the member requires an outside professional to assist in reviewing and analyzing the materials, that individual shall also execute a standard nondisclosure agreement prior to receiving the materials."

The Audit Committee has been granted special rights to review the Party's records. Each LNC Member has an absolute right under Washington, D.C. law to inspect corporate records in the exercise of his or her duties as a board member and to enlist agents to assist with this.

Any member of the LNC (including the member of the LNC who sits on the Audit Committee) has the legal right to enlist the help of outside professionals to review the Party's corporate records, provided that such review is reasonably related to one's duties as a member of the Board of the Libertarian National Committee, Inc.

1.0 MANAGEMENT BONUSES FOR 2014 OVERPAID BY $11,732

1.1 CRITERIA FOR EMPLOYEE ANNUAL BONUS PAYMENTS

For the time period which includes 2014, the employment contracts for both the Executive Director and the Political Director provide the potential for bonuses should certain target revenue levels be achieved. For 2014, according to these contracts, the annual target revenue was “to be determined and agreed upon by you and the Chair no later than December 31 of the prior calendar year”.

In its December 14-15, 2013 meeting, then-LNC-Chair Geoff Neale agreed to meet with the Executive Committee to establish the target revenues for employee bonuses. In a December 19, 2013 meeting, the Executive Committee established the 2014 target revenues. The minutes from that meeting state:

> “Mr. Wiener moved (Mr. Hagan seconded) to set the revenue target for staff bonuses at $1.5 million. There being no further discussion, a roll call vote was taken. The motion passed unanimously. Passage of this motion formally concludes the negotiations between the Chair and the Executive Director, and the Executive Committee has accepted this target number on behalf of the LNC.”

Wes Benedict is and was the Executive Director for all of 2014. The Executive Director was contracted to receive a $4,000 quarterly bonus (up to $16,000 for the year) for each quarter that the revenues are on track to achieve the annual targeted revenue figure. The amount of the annual bonus for the Executive Director was defined as:

> “If year-end revenues exceed 110% of the annual target revenue, you will receive an additional bonus of $4,000, plus 3.3% of revenue in excess of 110% of the annual target revenue.”

Carla Howell is and was the Political Director for all of 2014. The Political Director was contracted to receive a $3,000 quarterly bonus (up to $12,000 for the year) for each quarter that the revenues are on track to achieve the annual targeted revenue figure. The amount of the annual bonus for the Political Director was defined as:

> “If year-end revenues exceed 110% of the annual target revenue, you will receive an additional bonus of $4,000, plus 2.4% of revenue in excess of 110% of the annual target revenue.”

So, if the Party were to record sufficient revenues each quarter and exceed $1.65 million of revenues (110% of $1.5 million) for 2014, Mr. Benedict and Ms. Howell would be entitled to bonuses amounting to $20,000 and $16,000 respectively. For every dollar raised above that revenue figure, they would share 5.7% of the gross amount raised.

1.2 PAYMENT OF ANNUAL BONUSES

The financial statements previously issued by Treasurer Hagan as of December 31, 2014 show $1,605,136 as the total revenue for 2014. This figure included a best-estimate of $250,000 (later adjusted to $225,000) for the Shaber bequest. On March 23, 2015, the Mr. Hagan sent an email to the

LNC (a copy of this email is included below as part of Issue 2) indicating that after having discussed the matter with the Audit Committee Chair, the decision was that the Shaber bequest was to be recognized as revenue in December 2014.

With annual target revenues at $1,500,000, an annual bonus would be due to the Executive Director and to the Political Director if 2014 revenues exceeded 110% of that target ($1,650,000). Even with the bequest estimate included, the 2014 revenues were $1,605,136, which did not suffice to earn annual bonuses.

The Audit Committee noticed that our QuickBooks records reflect that annual bonus payment checks were issued on March 11, 2015 including fourth quarter and annual bonus amounts of $10,169.03 to Mr. Benedict, $8,563.26 to Ms. Howell and a $500 monthly bonus to Mr. Kraus for December revenues having exceeded $100,000. This corresponds to the $19,232.29 accrued at the end of 2014. Mr. Benedict's and Ms. Howell's bonuses should have instead been $4,000 and $3,000, respectively, just the fourth quarter bonuses. It's worth noting that in the absence of the Shaber bequest, fundraising was so poor during 2014, that there would not have even been a fourth quarter bonus, much less an annual bonus. The bonuses that were booked in 2014 (and paid in early 2015) were overstated by $6,169.03 and $5,563.26, respectively, a total of $11,732.29 out of the $19,232.29 recorded.

1.3 ESTABLISHING THE CAUSE OF THE ERROR

The Audit Committee requested documentation from Mr. Kraus regarding the calculations that resulted in these erroneous payments. Mr. Kraus provided the Audit Committee with a calculation table which indicated that he had used $1,400,000 as the target revenue rather than the $1,500,000 figure established by the Executive Committee. As noted above, that was not the correct target revenue figure, and these annual bonuses totaling $11,732.29 had not been earned. On August 3, 2015 the Audit Committee requested documentation as to who had approved these unearned bonus payments and why $1,400,000 had been used as the target.

On August 10, 2015 the Audit Committee received an email from Mr. Kraus which stated, in part (underlines added for emphasis):

> "First, I want to admit I made a very significant mistake in calculating bonus amounts for 2014. The target of $1.4M was what Geoff Neale had told me at some point was the goal for 2014. I apologize for not being aware of the EC minutes on this since they were approved 6 months after the fact they may have slipped everyone's mind or someone would have brought this up back in late Feb/early March when we all first discussed how to book the bequest and the bonuses.
>
> I believe the proper way this should have been handled is once the EC meeting was finished (I was not on the call <u>nor made aware of the results</u>) there should have been an addendum made to the EC/PD contracts signed by both parties and then this would have been in their personnel file and <u>I would have been aware that the amount differed from what Geoff was initially proposing</u>. I have just confirmed with Carla that even she was not aware that the target changed from $1.4M to $1.54M."

(Contrary to the assertion above, no correspondence ever took place in February or March of 2015 between Mr. Kraus and the Audit Committee chair concerning the amount of the annual target. The only discussions concerned how and when to book the bequest.)

Mr. Kraus indicated above and in subsequent email exchanges that he had not been made aware of the decided-upon target revenues for 2014. Mr. Kraus was present for the December 2013 LNC meeting where it was determined that the Executive Committee would set the target revenues. Even if Mr. Kraus wasn't present for the Executive Committee meeting, notice for that meeting was sent to the LNC email list to which Mr. Kraus is subscribed, and it seems likely that he would have inquired about the result afterwards so that he could know what figures to use in his accounting duties. The minutes of that Executive Committee meeting also indicate that Mr. Benedict was present, and it seems unlikely that Mr. Benedict would not have taken initiative to relay this information to Mr. Kraus following the meeting, and also to Ms. Howell since her potential bonuses were dependent on that figure.

The Audit Committee then asked Mr. Benedict if he had ever told Mr. Kraus the target revenue figure established by the Executive Committee. Mr. Benedict replied that he had informed Mr. Kraus, though he couldn't be sure of exactly when he first did so. Mr. Benedict provided the email below which demonstrates that at least in early August, both Mr. Kraus and Ms. Howell were informed of the correct figure which Mr. Kraus then cited in requesting approval for the second quarter bonus payments.

> Subject: bonuses due to Benedict and Howell
> Date: Wed, 06 Aug 2014 14:05:45 -0400
> From: Wes Benedict <wes.benedict@lp.org>
> To: Chair@LP.org <Chair@LP.org>, 'Tim Hagan' <treasurer@lp.org>, Robert Kraus <robert.kraus@lp.org>
> CC: Carla Howell <carla.howell@lp.org>
>
> Although I don't think approvals are required, in practice, Geoff Neale used to approve in writing our bonuses when we qualified. So I'm asking Nick Sarwark to approve these bonus payments as well.
>
> Carla Howell and I qualified for a second quarter bonus.
>
> Per my contract, "If year-to-date revenues as of June 30 exceed 50% of annual target revenue, you will receive a bonus of $4,000."
> Carla's contract, "If year-to-date revenues as of June 30 exceed 50% of annual target revenue, you will receive a bonus of $3,000."
>
> Targeted revenue was $1.5 million. 50% of targeted revenue is $750,000. June 30 YTD revenue was $782,489, which exceeds the $750,000.
>
> The targeted revenue was set at the LNC-EC meeting with minutes posted at this link:
> https://www.lp.org/files/20131219_ECTC.pdf
>
> "Mr. Wiener moved (Mr. Hagan seconded) to set the revenue target for staff bonuses at $1.5 million. There being no further discussion, a roll call vote was taken. The motion passed unanimously. Passage of this motion formally concludes the negotiations between the Chair and

the Executive Director, and the Executive Committee has accepted this target number on behalf of the LNC."

We did not qualify for a 1st quarter bonus, and we're not on track to qualify for another bonus this year, unless we improve fundraising substantially.

Please respond if you approve.

Thanks,
--
Wes Benedict, Executive Director

Please note that both Mr. Kraus and Ms. Howell were copied on that email. Mr. Benedict was correct that it was unlikely that further bonuses would be earned in 2014. It was only due to the Shaber bequest being recorded in 2014 that a bonus for the fourth quarter became possible.

So that the Audit Committee could determine whether it should recommend additional accounting controls to reduce the chances of this sort of error occurring again in the future, the Audit Committee requested copies of emails documenting who had approved the erroneous 2014 annual bonuses. We were provided with a copy of a March 4, 2015 email sent from Mr. Kraus to apparently at least Mr. Sarwark and Mr. Hagan, though it was not clear if there were other recipients:

On Wed, Mar 4, 2015 at 11:33 AM, Robert Kraus <robert.kraus@lp.org> wrote:

Please find attached revised Dec-2014 financials with adjustments made for the bequest per Audit Committee Chair Aaron Starr.

This also takes in account the following bonuses backed into 2014:

Wes $4,000 for 4th quarter of 2014 (total rev = $1.605M vs. $1.4M target)
Wes $4,000 for YE of 2014 (total rev = $1.605M vs. $1.54M)
Wes $2,169.03 for YE (3.33% in excess of 110% as shown below)

This is based on the following portion of Wes' contract: […graphic not reproduced here…]

Carla $3,000 for 4th quarter of 2014 (total rev = $1.605M vs. $1.4M target)
Carla $3,000 for YE of 2014 (total rev = $1.605M vs. $1.54M)
Carla $1,563.26 for YE (2.4% in excess of 110% as shown below)

And this portion of Carla's contract: […graphic not reproduced here…]

Bonus Calculations

Employee	Wes		Carla		Robert (Dec)
	Total Rev	$ 1,605,135.95	Total Rev	$1,605,135.95	
	Target + 10%	$ 1,540,000.00	Target + 10%	$1,540,000.00	
	Difference	$ 65,135.95	Difference	$ 65,135.95	
Add YE Bonus	3.33% of Diff	$ 2,169.03	2.4% of Diff	$ 1,563.26	
YE Bonus		$ 4,000.00		$ 4,000.00	
4th Quarter Bonus		$ 4,000.00		$ 3,000.00	
Total Bonus		$ 10,169.03		$ 8,563.26	$ 500.00
Total Bonuses Backed Into 2014					$ 19,232.29

Nick – please email your approval to pay the above bonuses ASAP.

Tim – I am not revising Jan-15 simply because the changes would only affect the balance sheet (for Jan) and these changes will also be reflected on the Feb-15 financials as will the adjustment for the current portion of the bequest received in Feb. I should have Feb to you late next week.

Live Free!
Robert

Evidently without checking the calculation, Mr. Sarwark responded by email the same day – distribution list included Kraus, Hagan, Benedict and Redpath – to approve the over-payment of bonuses by $11,732.29.

Notice also within Mr. Kraus' message above is acknowledgment that the Shaber bequest was to be recognized in the 2014 revenues, per a previous discussion with the Audit Committee.

Mr. Sarwark was not on the LNC in December 2013 when the Executive Committee had set the annual target revenues, so unless Mr. Sarwark had reviewed prior minutes, he may not have been aware of the correct figures for the calculation and would likely have relied on staff to provide him the correct formulas. No evidence has been presented to the Audit Committee to indicate that either Mr. Benedict or Mr. Hagan caught the error, though they were both present for the December 19, 2013 Executive Committee meeting which established the target figure. Mr. Redpath was copied on at least Mr. Sarwark's approval email message, but since Mr. Redpath is the Assistant Treasurer, it is understandable that he would likely leave primary review responsibilities in the hands of staff, Mr. Sarwark and Mr. Hagan and only feel a need to engage in the absence of a Treasurer.

We wonder why Mr. Benedict and Ms. Howell did not question the large bonuses they received in March 2015, when it was abundantly clear that the Party did not achieve the required $1.65 million in revenues necessary to trigger annual bonuses.

1.4 TREASURER INDICATES TO LNC THAT THE MATTER HAS BEEN CORRECTED

On September 3, 2015, LNC Treasurer Tim Hagan sent an email to the LNC which stated:

> "The July End-of-Month Financial Reports are attached.
>
> I consulted with the auditor, and we decided to re-book the bequest into 2015. The amount booked in 2014 kept changing when we received new estimates. In order to conform to GAAP, bequests will be booked when the first payment is made, or when we receive notice of the exact & final amount from a will's probate.
>
> There was a mix-up or miscommunication resulting in 2014 Year-End Bonuses to be erroneously paid. The former Chair had originally told staff that the goal for bonuses in 2014 will be $1.4 M. The files did not get updated to reflect the Executive Committee setting the goal to $1.5 M. The two employees affected have paid back their bonuses via payroll deductions."

This message didn't explain the situation in much detail. It did not convey the amount of the overpayment. It did not mention the financial impact that moving the bequest would have on management compensation. It indicated to the LNC that the overpaid bonuses had been repaid to the Party. However, the next section will demonstrate that this is not an accurate characterization, and staff instead took action which would effectively allow management to keep most of the overpayments while telling the LNC they had been repaid.

1.5 RECOMMENDATIONS:

- Recommendations on this subject appear at the end of the next section

<u>2.0 STAFF ALTERED THE BOOKS TO GENERATE $14,000 OF EMPLOYEE BONUSES IN 2015</u>

2.1 SHABER BEQUEST RE-BOOKED AFTER AUDIT COMMITTEE DISCOVERED 2014 BONUS OVERPAYMENT

In the March 4, 2015 email cited in Section 1.3 above, Mr. Kraus acknowledged his understanding that the Shaber bequest was to be recognized as revenue in 2014.

Mr. Hagan sent the following email to the LNC on March 23, 2015, indicating that the Shaber bequest would be recognized as revenue in 2014:

> "A revised set of December 2014 Financial Reports is attached. In consultation with the Audit Committee Chair, we've adjusted it to reflect a bequest from a will that the LNC was notified about in 2014. December 2014 revenues now include the estimated amount of the bequest as a donation under General Fundraising. On the Balance Sheet, $32,400 (the 2014 contribution limit) of the bequest was added in Other Current Assets, and the estimated remanding $217,600

> shows up in Other Assets as Non-Current Collectables. The will's executor has not given us the exact amount to be received yet. Staff bonuses of $19,232 for 2014 were also added to these revised reports."

Indeed, the draft 2014 financial statements attached to the above email reflect that, and the 2015 monthly financial statements through June 2015 did not show the Shaber bequest as having been recognized in 2015.

However, in response to the Audit Committee on August 3, 2015 bringing up the issue of the 2014 annual bonus overpayments, and the need for Mr. Benedict and Ms. Howell to repay $11,732.29 to the Party, staff decided that they wanted the Shaber bequest recognized as revenue in 2015 instead.

Section 1.3 above quotes a portion of an August 10, 2015 email from Mr. Kraus, in which he concedes the 2014 annual bonus payments were erroneous. Further in that very same email Mr. Kraus turned attention to the subject of the Shaber bequest, though there had been an agreement in place for several months as to when that revenue was to be recognized:

> "Please forgive the delay in responding to your inquiry. As you know Tim has been working with the auditors on both the bequest and bonuses over the last week.
>
> First, I want to admit I made a very significant mistake in calculating bonus amounts for 2014. The target of $1.4M was what Geoff Neale had told me at some point was the goal for 2014. I apologize for not being aware of the EC minutes on this since they were approved 6 months after the fact they may have slipped everyone's mind or someone would have brought this up back in late Feb/early March when we all first discussed how to book the bequest and the bonuses. […]
>
> Now on to the bequest – which is what initiated this whole process. Tim was tasked by the Chair to work with the auditors on a solution and the appropriate journal adjustments to correct my error.
>
> In doing so we re-visited a long discussion we had with the auditors during field work as to if the bequest should have been booked in 2015. We understood that under GAAP a valid argument could be made that we should have never booked the bequest in 2014. FASB defines a condition as a 'future and uncertain event' that must occur – these are not recorded as revenue or support on the books of the agent. They are simply 'noted' in the audited reports. This is true in a case like we have where the amount of the bequest is not yet known or 'realized.'
>
> There is a 2^{nd} part of FASB that states you should not record the bequest as a receivable until 'the probate of the will or the actual receipt of the donation.'
>
> After some back and forth between the auditor, the chair and the treasurer – Tim came up with the following recommended policy: That bequests be booked when we receive the first payment.
>
> Since we did not get the first payment until 2015, then the bequest should not be recorded as revenue/receivable until 2015.

> The Chair and auditors have agreed and approved this policy of Tim's thus requiring us to rebook the bequest for 02/26/2015 (date of the first payment) and this in turn triggered a bonus for Wes and Carla for the 1st 2 quarters of 2015.
>
> The following final journal adjustments and 2015 bonuses have now been taken and approved by the Treasurer, Chair and auditors (see attached for revised Balance Sheet and P&L along with bonus calculations and journal adjustments): […]"

2.2 AUDIT COMMITTEE NOT CONSULTED ON THIS PROPOSED CHANGE OF ACCOUNTING TREATMENT

The change in accounting treatment mentioned in the above email came as a surprise to the Audit Committee. Though the original decision to book it in 2014 had been made in consultation with the Audit Committee, we were not included in this new discussion about changing the decision.

In previous years we booked bequests during the year the Party was notified that the deceased had named the Party in its will. The Party was notified in 2014 that Mr. Shaber had died and had named the Party in his will. Generally Accepted Accounting Principles requires that we record revenues on an accrual basis, and that the amount recognized be based on what we reasonably estimate we are likely to ultimately receive. The only reason for delaying the recording of the revenue would be if there was a question as to whether we were entitled to the money (e.g. the will was being contested), but that has never been the case with this bequest.

2.3 FINANCIAL IMPACT OF CHANGING THE ACCOUNTING TREATMENT OF THE BEQUEST

The Audit Committee's position is that only $7,500 of the $19,232.29 in bonuses was earned in 2014 and the balance of $11,732.29 needed to be repaid.

Shifting bequest revenues from 2014 to 2015 inflates management's compensation by generating bonus payments that otherwise would not be warranted. Through this financial engineering, staff is asserting that all of the 2014 bonuses of $19,232.29 paid in March 2015 are now prepayments of bonuses for the current year.

It's been reported to us that the target for revenues for 2015 is $1,450,000. Without recording the bequest in 2015, Mr. Hagan reported year-to-date revenues through March and June of 2015 as $288,373 and $517,263, respectively, well below the amounts required to earn bonuses in 2015. With Mr. Kraus' new accounting treatment shifting revenue from the year of accrual to the current year, Mr. Benedict is rewarded with a bonus of $8,000 for the first two quarters, Ms. Howell received a bonus of $6,000, and Mr. Kraus received $500 for the month that the bequest was recorded, an unwarranted $14,500 in bonuses paid. Because the $19,232.29 paid in March 2015 exceeds the $14,500 in bonuses staff claims is now earned for the first two quarters, Mr. Kraus withheld from subsequent payroll checks $4,732.29 in overpaid bonuses ($2,169.03 in overpaid bonuses to Mr. Benedict and $2,563.26 to Ms. Howell). The Audit Committee's conclusion is that $7,500 in bonuses should have been earned in 2014, not $14,500 in 2015. Hence, Mr. Kraus still needs to withhold an additional $4,000 from Mr. Benedict and $3,000 from Ms. Howell. Mr. Kraus does not owe a bonus back to the Party because his proposed change in accounting treatment merely transferred a $500 monthly bonus he earned from 2014 to 2015.

Mr. Kraus' financial engineering resulted in Mr. Benedict and Ms. Howell losing $7,000 in bonuses for the fourth quarter of 2014, but gaining $14,000 in bonuses for the first two quarters of 2015. Moreover, if the Audit Committee and the LNC were to go along with this ploy, the boost in 2015 revenues recorded could potentially entitle Mr. Benedict to receive additional unearned quarterly bonuses during the remainder of this year, though it is our understanding that revenues for 2015 are so poor that the third quarter bonus target was not met, even with the recording of the bequest in 2015, and it looks doubtful that either the fourth quarter or annual bonus targets will be achieved. Ms. Howell's new contract no longer entitles her to bonuses based on revenues after June 2015.

2.4 BASIS FOR DECISION OF WHEN THE BEQUEST SHOULD BE RECOGNIZED

Mr. Kraus' email did not provide any FASB citation to support his position that the bequest ought to be booked in 2015. The only thing we found in a Google search of "FASB" plus Mr. Kraus' quoted phrase "the probate of the will or the actual receipt of the donation" is on a website for a Canadian accounting firm. And even then, the full sentence states: "An organization may be named as the beneficiary of a bequest in a will. *However, the organization will not normally have reasonable assurance that the amount will be received until either the time of death*, the probate of the will or the actual receipt of the donation." Mr. Kraus left out the italicized part. Obviously at the end of 2014, death had already occurred, and we had reasonable assurance that we would be receiving the funds.

Our reading of the accounting literature on revenue recognition, particularly FASB Accounting Standards Codification Topic 958, gave no justification for delaying recognition until 2015.

We requested from Michael Shaffer, the auditor on the engagement, the justification for shifting $225,000 in bequest revenue from year 2014 to year 2015. He stated that he went along with staff's request to change the accounting treatment because it was more conservative to delay the recording of the revenue. He was not aware that staff was attempting to manipulate the accounting treatment to increase management compensation. After speaking with the partner on the engagement, Mr. Shaffer acknowledged that the decision to change accounting treatment (provided that it is in accordance with Generally Accepted Accounting Principles) should be made by the Audit Committee, not by staff or the Treasurer.

Based on our reading of the literature and the facts presented to us, we could not come up with a justification for changing the historical method of recording bequests. As such, the audited financial statements show the bequest with its proper treatment of being recorded in 2014, the year the Party was notified of the death that brought about the bequest. Notwithstanding the Treasurer's email of September 3, 2015 quoted above, our QuickBooks records should be corrected to match the audited financial statements, and the unwarranted bonuses should be repaid to the party.

2.5 STATUS SUMMARY

The Audit Committee's findings of the bonus miscalculation convinced staff to return $4,732.29 of the overpaid bonuses. Through payroll deductions during 2015, Mr. Kraus reports that Mr. Benedict has returned $2,169.03 and Ms. Howell has returned $2,563.26. However, Mr. Benedict and Ms. Howell have not yet repaid to the Party the $14,000 bonuses Robert claims they have earned during the first two quarters of 2015, offset by the $7,000 of bonuses Robert claims they no longer have earned for the fourth quarter of 2014.

To make the Party whole, Mr. Kraus needs to withhold from their paychecks an additional $4,000 from Mr. Benedict and $3,000 from Ms. Howell.

2.6 RECOMMENDATIONS

- Direct Mr. Kraus to correct the Party's QuickBooks records to match the audited financial statements by booking the Shaber bequest in 2014.
- Direct Mr. Kraus to withhold $4,000 from Mr. Benedict's paycheck and $3,000 from Ms. Howell paycheck to repay unearned bonuses.
- To increase the likelihood that someone will catch errors in the calculation of bonuses, the Employment Policy and Compensation Committee should review those calculations prior to their approval.

<u>3.0 THE PARTY PAID $8,186 IN RELOCATION EXPENSES FOR THE EXECUTIVE DIRECTOR, WHICH WAS NOT AUTHORIZED BY HIS CONTRACT OR BY THE EMPLOYEE HANDBOOK</u>

3.1 BACKGROUND

While reviewing the Party's QuickBooks records for 2014, the Audit Committee noticed that spanning 2013 and 2014 were add-on amounts to some of Mr. Benedict's payroll checks categorized as "Relocation Exp – Non-Taxable".

When Ms. Howell was initially hired as Executive Director in 2011, her written employment contract included a clause that offered reimbursement for moving expenses within certain limits. Those on the LNC last term will remember that the improper administration of that clause was a significant subject of the 2012 Audit Committee report, resulting in directives from the LNC that several thousands of dollars be repaid to the Party.

The Audit Committee reviewed Mr. Benedict's August 2013 employment contract and found that, unlike the prior Executive Director's contract, his contract contained no clause offering any reimbursement of moving expenses. The employee handbook makes no mention that we offer any sort of moving expense reimbursement as a routine benefit.

On July 14, 2013, the LNC minutes reflect that the LNC had an executive session to review the proposed contract with Mr. Benedict, and from those minutes:

> "Following the executive session, Mr. Hinkle moved to approve the Executive Director contract that was reviewed in executive session, which will have the effect of hiring Wes Benedict as Executive Director effective as of August 1, 2013."

The motion was adopted. Both Mr. Benedict and then-LNC-Chair Geoff Neale signed the approved contract, also dated July 14, 2013, which states that:

> "This letter sets forth the entire agreement regarding your employment."

3.2 PRIVATE AGREEMENT BETWEEN WES BENEDICT AND GEOFF NEALE

Finding no evidence of any authorization for reimbursement of moving expenses, the Audit Committee inquired about the nature of these payments and who approved them, and Mr. Benedict provided copies of the following emails:

> From: wes.benedict@lp.org [mailto:wes.benedict@lp.org]
> Sent: Tuesday, September 10, 2013 8:49 AM
> To: chair@lp.org
> Cc: Geoffrey Neale; wesbenedict@gmail.com
> Subject: put my moving expense approvals in writing
>
> Geoff,
>
> This note is to put in writing that you have verbally authorized me to make reasonable moving expenditures that will be reimbursed by the Libertarian National Committee, Inc. (LNC). For example, I described to you that I would be renting a U-Haul and driving it with furniture from Baton Rouge to Washington, DC in September, and that I would expect to make a second trip with another U-haul sometime in 2014. The U-Haul rental, gas, and movers that I hire are expected to be reimbursed to me by the LNC. Other reasonable moving expenses are expected to be reimbursed as well.
>
> You have already approved some expenses that you or others have categorized as travel, such as flights from Baton Rouge to Washington, DC, and motel stays in Virginia.
>
> Moving expense reimbursements are not mentioned in my contract, but they will be reimbursed in spite of that, and to the best of your knowledge, the reimbursements are in compliance with LNC and your individual policies.
>
> I have copied my personal email address and will have the right to retain a copy of this email and all associated expense receipts for my records in perpetuity.
>
> I am in Baton Rouge, and will await your approval in writing before reserving a U-haul and returning to Washington, DC.
>
> --Wes Benedict, Executive Director
> Libertarian National Committee, Inc.

> Subject: RE: put my moving expense approvals in writing
> Date: Tue, 10 Sep 2013 19:16:55 -0500

From: Geoffrey Neale <liber8or@austin.rr.com>
To: wes.benedict@lp.org, chair@lp.org
CC: wesbenedict@gmail.com

Wes:

I hereby confirm that I have, under my authority as Chair, guaranteed the payment of reasonable expenses related to your employment, travel and relocation during the transition from a an "off-site" employee to an "on-site" employee.

It is also my understanding from you that you expect the total amount to be around $5,000. I trust that you will exercise due diligence in keeping the costs to that amount, but I will take any excess amounts into consideration, and will agree to cover costs that exceed that amount, so long as they can be reasonably be justified.

While I chose to not include these amounts in the contract, employment contracts do not represent the entirety of commitments by either party, and in my opinion the above is binding.

Geoffrey Neale
Chair
Libertarian National Committee

LNC members might find it interesting that the day before this email exchange, September 9, 2013, the previous Audit Committee first inquired about Carla Howell's contractually allowed moving expenses. On September 10, 2013, Mr. Benedict and Mr. Neale created the above email exchange, perhaps to gloss over the fact that the payment of this employee benefit was beyond that authorized by the LNC. Mr. Benedict was in Louisiana as part of his move on the day that he initiated this exchange and had already incurred thousands of dollars of moving costs not authorized by his employment agreement.

Note that the email from Mr. Neale asserted that "employment contracts do not represent the entirety of commitments by either party". This latter statement directly contradicts the written agreement approved by the LNC which states, "This letter sets forth the entire agreement regarding your employment." This seems to be an acknowledgement that they knew their private agreement violated the written contract they had signed with the LNC's approval.

Note that Libertarian Party Bylaws Article 7.3 indicates that the chair's authority is subject to the directives of the LNC, when it states:

> "The Chair is the chief executive officer of the Party with full authority to direct its business and affairs, including hiring and discharging of National Committee volunteers and paid personnel, subject to express National Committee policies and directives issued in the exercise of the National Committee's plenary control and management of Party affairs, properties and funds."

Thus, the LNC Chair does not have the power to unilaterally override the terms approved by the LNC as the parent body with plenary authority.

Mr. Benedict's employment contract also includes the agreement that:

> "You will adhere to the bylaws and policies adopted by the LNC. You will hold the position of a fiduciary to the LNC. You will be obligated to act in good faith and with the highest fidelity and prudence in the best interest of the LNC."

This clause puts personal responsibility for bylaw/policy compliance on Mr. Benedict, not just merely on Mr. Neale as his then-supervisor. Mr. Benedict has previously served on the LNC and has been previously employed by the LNC, so he was well acquainted with the LP bylaws, LNC policies, and limitations of the Chair's powers long before his 2013 hiring.

3.3 A CONSCIOUS CHOICE TO LEAVE THIS PROVISION OUT OF THE CONTRACT GIVEN TO THE LNC

Given the timing of the email exchange – one day after the Audit Committee began inquiring about the limits of Ms. Howell's moving costs in her written contract – we did find the explanation strange that Mr. Benedict was asking Mr. Neale to now memorialize a side agreement that supposedly pre-dated the LNC's approval of the contract, so the Audit Committee inquired of Mr. Benedict, "In your email to Geoff, you make reference to a verbal agreement prior to his acknowledgement of it in his written email response. When did Geoff originally commit to paying for your moving expenses?" Mr. Benedict replied that:

> "Geoff told me that he did not like the way the contract with Carla Howell allowing up to \$20,000 in moving expenses made it likely to spend \$20,000 whereas he could better control costs by approving things on a case by case basis and I think he told me that on several occasions before I was hired and before I signed the contract July 14, 2013 as well as many times after the contract was signed."

Both Mr. Benedict and Mr. Neale assert in this after-the-fact exchange that the private agreement was made prior to approaching the LNC for contract approval. Mr. Neale indicated it was a conscious choice on his part to leave this private agreement out of the written contract presented to the LNC. The Audit Committee does not know what was discussed with the LNC during the Executive Session immediately prior to the LNC's vote on the matter; however, when the LNC rose from Executive Session, it approved a contract that made no mention of reimbursement of moving costs (unlike Ms. Howell's ED contract) and which clearly states that the written contract constitutes the entirety of the agreement. Mr. Benedict was not present during the Executive Session with the LNC, but later in open session neither he nor Geoff Neale requested that the LNC alter the contract to include a provision for payment of moving expenses.

We considered the possibility that the Chair could have authorized this expense as part of his discretionary fund, though his email exchange with Mr. Benedict doesn't state that.

LNC Policy Manual Section 1.05.1 states, in part:

> "The Chair, without the consent of the Executive Committee, is authorized to expend up to \$1,000 in discretionary funds within any (rolling) three month period, the total of which shall not exceed \$5,000 per term unless those expenditures are later ratified by the LNC."

The Audit Committee reviewed QuickBooks records for indications of discretionary spending by the Chair during the 2012-2014 LNC term. Mr. Kraus does not use consistent notation in QuickBooks to identify these expenditures, so we are not certain whether we found all instances. However, Appendix A documents $4,670.59 of expenditures during Mr. Neale's term which indicate in an associated memo or reference field that they were Chair's discretionary spending.

The fact that almost all of the $5,000 allotment was spent on other things suggests that it was not intended for these moving expenditures to be authorized as Chair's discretionary funds. The $5,000 per term limit means that at most $329.41 was available from these funds, though the total moving costs were $8,186.07.

Regardless of whether there was an intention to put something in an agreement or there is an opinion by the former Chair that there was no need to put this into the agreement, it is clear to us that the payment of moving costs could not be authorized by the Chair because it was beyond what was authorized as "the entire agreement" approved by the LNC. Mr. Benedict's acceptance of such compensation is unauthorized.

3.3 ADDITIONAL MOVING EXPENSES MIS-CLASSIFIED IN ACCOUNTING RECORDS AS BUSINESS TRAVEL

The three amounts that the Audit Committee had noticed added onto Mr. Benedict's payroll checks for relocation expenses during 2013-2014 totaled $5,772.31. There was an additional reimbursement check issued to him outside of the payroll system in the amount of $1,229.55. Notice that Mr. Benedict's email to Neale made the statement that, "You have already approved some expenses that you or others have categorized as travel, such as flights from Baton Rouge to Washington, DC, and motel stays in Virginia." The Audit Committee followed-up and asked Mr. Benedict, "What other charges were paid by the Party on your behalf for your moving costs e.g. airline costs, hotels, etc.)? Please provide documentation as to their approval."

Mr. Benedict's initial response was:

> "It's your opinion something should be classified as a moving costs whereas if I remember correctly it was the opinion of Geoff Neale and Robert Kraus that some things you assert should have been classified as moving costs were appropriate to classify differently such as travel, relocations, or other ways. I did not classify them myself and I haven't in general had the authority to overrule our chair, treasurer, and operations director. I don't access Quickbooks and I never enter Quickbooks transactions or payroll transactions. I do try to follow whatever instructions I'm given. Geoff said one thing, now you're saying something different. I typically feel like I have to do what the chair tells me to do based on my contract and past practice until he is overridden. If you want something classified differently than it was classified in 2013, then I think you'll need to go through the appropriate channels to cause that effect. […]
>
> I'm not aware of 'other charges were paid by the Party on your behalf for your moving costs (e.g. airline costs, hotels, etc.)?' "

The Audit Committee's follow-up query was:

> "Your reply addressed how transactions might be classified in the books, which is orthogonal to our question, so perhaps we did not ask our question clearly. To clarify, we are rewording our request as follows:
>
> Irrespective of how the transactions may have been recorded in the books, what additional costs were incurred by the Party to facilitate your transition and your family's transition from Baton Rouge to the DC metropolitan area? Please include any expenditures the Party incurred for transportation (including but not limited to air fare, vehicle rentals, taxi cabs, shuttles), hotels/motels, temporary lodging, meals, supplies, movers, or any other transition costs. Please provide documentation as to their approval."

Mr. Benedict's reply was:

> "I'm not aware of any additional costs that were incurred by the Party to facilitate my transition and my family's transition from Baton Rouge to the DC metropolitan area aside from what I already provided in Part I and Part II along with approvals, but if you notice or consider anything that I've provided to be missing, such as expenses or approvals, please help me identify what you're missing and I'll see if I can find the details you need. There were probably lots of additional meals perhaps I should have asked the party to cover, but I decided to eat those costs.
>
> In any case, I think I answered that already in Part II, and I'm pasting that response here as well again, indented and in italics:
>
> > *I'm not aware of* '*other charges were paid by the Party on your behalf for your moving costs (e.g. airline costs, hotels, etc.)?*'
>
> It's possible I'm confused by the prior question since I thought I already answered it. If so, please help me understand what you are asking."

The Audit Committee reply to Mr. Benedict was:

> Actually, you may not remember this, but it seems you have already told us that you are aware of other such expenses.
>
> In your September 10, 2013 email, you stated to Geoff Neale that besides expenses to be reimbursed to you:
>
> > 'You have already approved some expenses that you or others have categorized as travel, such as flights from Baton Rouge to Washington, DC, and motel stays in Virginia.'
>
> We simply need your cooperation in documenting and itemizing these and any other amounts and their approvals.
>
> Some of the records you have submitted also lead us to believe there might be other expenditures made to facilitate your transition. For example: The Party reimbursed you for a

$60 baggage fee for an 08/08/13 Delta flight from Baton Rouge to Washington, DC, but your reimbursement did not include the cost of the Delta flight itself, just the baggage fee. The Party's QuickBooks records indicate that the Party's 08/01/13 credit card statement included a $336 charge from Delta.

Your expense reimbursement records suggest that the Party might have purchased several tickets for air fare to facilitate your move, and they suggest the Party also may have directly paid additional hotel charges not listed on your expense reimbursement reports. There may be additional taxi fares paid directly by the Party on a credit card. We are asking for records of those transactions, purchased directly by the Party (rather than you purchasing them and later being reimbursed), that facilitated your move from Baton Rouge to the Washington, DC area.

Irrespective of how the transactions may have been recorded in the books, what additional costs were incurred by the Party to facilitate your transition and your family's transition from Baton Rouge to the DC metropolitan area? Please include any expenditures the Party incurred for transportation (including but not limited to air fare, vehicle rentals, taxi cabs, shuttles), hotels/motels, temporary lodging, meals, supplies, movers, or any other transition costs. Please provide documentation as to their approval."

We will let LNC members draw their own conclusion as to why it took so many requests to obtain the documentation.

This exchange did eventually result in the Audit Committee being provided the requested documentation. With this information in hand we were able to document a total of $8,186.07 not authorized by the LNC that the Party expended to cover Mr. Benedict's moving expenses. This amount includes the $5,772.31 reimbursed through the payroll system, the $1,229.55 reimbursed with a non-payroll check, and an additional $1,184.21 paid directly to vendors by the Party on Mr. Benedict's behalf. Details of these expenses are shown in Appendix B.

The $1,184.21 paid directly by the party was charged to a budget line other than the one where reimbursement of moving expenses should be classified. These transactions were categorized as "8140 – Travel, Meeting, & Meals Exp", which should only include travel for business purposes such as staff traveling to attend an LNC meeting. By mis-classifying some portion of the moving expenses as business travel rather than as moving expenses, it had the effect of hiding the magnitude of the actual cost to the Party for this private agreement.

3.4 COST CONTROL AS AN ALLEGED MOTIVATION

One of Mr. Benedict comments to the Audit Committee about this private agreement states that Mr. Neale believed this approach would serve as a better cost control, as compared to the written agreement for relocation expenses in Ms. Howell's contract. Even if Mr. Neale had the authority to make this agreement, the results do not support that this approach actually served as a better cost control, in that the emails indicate an expectation that the costs would total "around $5,000", and in the end the total was $8,186.07. It does appear from the documentation provided to the Audit Committee that Mr. Neale purported to approve each of these expenditures, even those that exceeded the $5,000 estimated spending cap, though we believe it was outside of his authority to do so. We also believe that

Mr. Benedict shares the duty to understand the bylaws that make it outside the Chair's authority to offer compensation beyond his LNC-approved employment agreement.

3.5 RECOMMENDATIONS

- Require that Mr. Benedict reimburse the Party for $7,856.66, an amount equal to the $8,186.07 incurred for his moving costs net of $329.41 the Chair could have authorized from his discretionary fund.

- To improve transparency of employee benefits, include in the chart of accounts a separate account for employee moving costs.

- Update the policy manual to prohibit the use of the Chair's Discretionary Fund for compensation and – to make clear when the Chair is authorizing the expenditure of funds from the Chair's Discretionary Fund – require that monthly financial reports include an itemization of Fund expenditures.

4.0 PAYROLL/OVERHEAD CANNOT BE ALLOCATED CORRECTLY ON FINANCIAL STATEMENTS DUE TO STAFF'S FAILURE TO ABIDE BY LNC POLICY

GAAP requires that our financial statements allocate payroll and overhead for core activities. Moreover, rationally assigning payroll and overhead costs to the Party's activities enables the LNC to better understand the full costs to perform tasks and judge whether they create more value than they cost.

During the previous LNC term, based on the written recommendation presented to the LNC by our outside CPA firm to require all employees to complete timesheets every pay period, allocating time spent to the programs and/or supporting services (G&A and Fundraising) functions, the LNC on August 9, 2013 adopted Policy Manual Section 2.03.7, which states:

> "Each employee shall submit a timesheet at least once per pay period to reflect the number of hours worked, allocating such time to corresponding categories specified in the annual budget. Time sheets shall be reviewed and approved prior to employee time being entered in the payroll system. Payroll costs for each employee shall be allocated to expense categories in proportion with approved time. Separate general ledger accounts shall be used for allocated payroll costs.
>
> Where appropriate, an expense shall be allocated to one category. Expenses that benefit more than one category or that are general administrative in nature shall be allocated to a general administrative account in the general ledger. Those expenses shall then be allocated on a monthly basis to expense categories in proportion to the allocation of payroll costs. Separate general ledger accounts shall be used for allocated general administrative costs.
>
> Monthly financial statements shall separately report allocations of payroll and overhead to corresponding categories."

The Audit Committee expected that there was plenty of time to implement this for the full 2014 fiscal year, so we examined the time sheets.

4.1 REVIEW OF TIME SHEETS TO VERIFY THE VALIDITY OF PAYROLL AND OVERHEAD ALLOCATIONS

The draft financials presented to the Audit Committee included an allocation of payroll and overhead expenses to our core activities. The Audit Committee requested from staff copies of the time sheets with the policy-required work allocations so that we could verify that the reported figures were reasonably accurate.

The time sheets were provided, but the time sheets did not actually evidence any effort by staff to allocate time to the budget categories. In a few instances, employees make a note on their time sheet of the general tasks they worked on that day, but even in those instances there is no indication whatsoever of how much time was spent on each of those tasks.

The Audit Committee was also provided with a spreadsheet prepared by Mr. Kraus calculating how payroll and overhead are to be allocated on the statement of activities, but there was no source data showing how those figures were derived. Moreover, Mr. Kraus' method of calculating an overall percentage of payroll costs to each activity is derived by equally weighting the average percentages of time spent by all employees, though they are paid at different rates. In other words, the cost of an expensive full-time employee is given the same weight as a low cost part-time employee, which is not rational.

The Audit Committee noted to Mr. Benedict that we did not see where the employees were allocating their time to the corresponding categories in the annual budget. The response from Mr. Benedict was, in part:

> "Each employee submits a timesheet electronically via our online timecard system. Robert Kraus allocates the time for some employees based on his knowledge of their work. Carla Howell allocates her time at the end of each month. I allocate my time at the end of each month. The table I use to allocate my time is attached. I try to track in detail on some days by estimating how many hours I spent on various things that day. It's just a rough estimate. […] I don't think any other employee tracks their time in as great of detail as I do."

The attached table included the source data for Mr. Benedict's allocations each month, but some months contained data for as few as 3 workdays for the month, and no more than 11 workdays for the month. On average for the year, his time was allocated based 6.08 workdays per month, and those numbers were assumed to be representative of the entire month.

No information was provided about how any other employee's allocations are derived, other than Mr. Benedict's statement that "Robert Kraus allocates the time for some employees based on his knowledge of their work." The entire purpose of the LNC having adopted the policy noted above was to move away from the prior practice of Mr. Kraus guessing at the time allocations, but since staff has not complied with this policy, this portion of our financial statements is again based on Mr. Kraus' guesses in spite of the LNC having passed a policy to track actual data.

Though we only reviewed the 2014 time sheets, we presume that staff has also not been complying with this policy during 2015. If that's the case, it means that the allocations of payroll and overhead expenses will also be inaccurate on the 2015 audited financial statements. Though the policy was adopted in 2013, it now seems that 2016 is the first opportunity for us to have accurate payroll and overhead expense allocation data.

4.2 TIME SHEETS NOT BEING APPROVED BY SUPERVISORS

A portion of the policy cited in section 4.0 above is that "Time sheets shall be reviewed and approved prior to employee time being entered in the payroll system."

Based on the Audit Committee's review of the time sheets and the payroll detail provided, we inquired the following of Mr. Benedict:

> "From what we can discern, while there are times (though not consistently) that we see your signature approving the payroll totals being submitted after Robert enters hours in the payroll system, we do not see anything to indicate that time sheets themselves are 'reviewed and approved prior to employee time being entered in the payroll system.' Are the time sheets being reviewed and approved prior to data being entered in the payroll system? Can you please tell us who is reviewing and approving them?"

The reply received from Mr. Benedict was:

> "Robert reviews the online time card/(aka time sheet system if you want to call it that) and approves them as he enters them into the payroll system and I approve everything a second time prior to payroll being submitted for payment."

We note that the second approval that Mr. Benedict mentions is not an approval of the hours worked as reflected on the time sheets, but at times (though not consistently) an approval of only the dollar totals on a report generated by QuickBooks after Mr. Kraus has entered data from the time sheets.

The Audit Committee notes that standard protocol for approval of an employee's time sheet should be that the employee's supervisor, not simply the payroll clerk, is the appropriate party to approve time sheets. Certainly the payroll clerk should not be approving his own time sheets. The printed time sheets even include an area for both the employee and his or her supervisor to sign an approval of the hours worked, but this feature is not being utilized.

Were the approvals of time sheets being performed in accordance with standard protocol, it would have provided the Executive Director more opportunity to notice the large number of policy violations that the Audit Committee will report in section 5.0 below.

4.3 ONE EMPLOYEE DID NOT COMPLETE A TIME SHEET FOR EIGHT MONTHS

Also from the review of the time sheets, the Audit Committee asked Mr. Benedict:

> "We do not see time sheets for Eric Dixon during much of the year. It appears that he stopped punching a clock in April and he was paid regardless. Can you please tell us what happened?"

Mr. Benedict's rather unsatisfactory response was:

> "He stopped filling out the time clock. He was paid anyway."

The payroll records indicate that from the time that Mr. Dixon ceased using the time clock, he was merely credited in the payroll system with having worked exactly 80.00 hours each bi-weekly pay period, and he received paychecks for the remainder of the year despite a failure to complete time sheets.

Failure to complete a time sheet is a violation of the above-cited LNC policy, and it undermines our ability to have the payroll and overhead allocations on our financial statements reflect anything more than fiction. Since there were no time sheets for this employee, the two individuals who were named as giving the required approvals apparently approved non-existent time sheets. No evidence was provided to the Audit Committee that an effort was made by either Mr. Kraus as the payroll clerk or by Mr. Benedict as Executive Director to require compliance with the LNC's policy.

4.4 MONTHLY FINANCIAL STATEMENTS ARE NOT SEPARATELY REPORTING THE REQUIRED ALLOCATIONS

Another portion of the policy cited in section 4.0 above is that, "Monthly financial statements shall separately report allocations of payroll and overhead to corresponding categories."

Since the time in August of 2013 that the LNC implemented this policy regarding allocation of employee work hours, no monthly financial statements have yet included the required allocations of overhead to corresponding categories specified in the annual budget.

The Audit Committee does note that beginning with the July 2013 monthly financial statements, which were released just after this policy was adopted, the titles were changed on two separate sections of the monthly financial statements to include the phrase "functional allocation". However, the contents of those sections are not the information required by this LNC policy.

4.5 RECOMMENDATIONS

- We recommend that the Treasurer be required to sign off on the bi-weekly employee-prepared timesheets, certifying that the time is allocated to the budgeted activities prior to the issuance of each payroll.
- We recommend that the Audit Committee spot check these approved time sheets to ensure that staff and the Treasurer understand the policy and are faithfully executing it.
- We recommend that the Treasurer review each month the calculation for allocating payroll and overhead, and certify that the allocation figures reconcile to the time sheets, and that the payroll and overhead figures reconcile to the financial statements.
- We recommend that the Audit Committee spot check these monthly calculations to ensure that staff and the Treasurer understand the policy and are faithfully executing it on a rational basis.

5.0 NUMEROUS OTHER POLICY VIOLATIONS NOTED IN REVIEW OF STAFF TIME SHEETS

As noted in the previous section, the Audit Committee requested and received copies of staff time sheets for 2014 so that we could review compliance with the new time allocation policy. In reviewing those time sheets a number of other policy violations were evident.

5.1 SUMMARY OF FINDINGS

Appendix C is a copy of a 9-page letter sent from the Audit Committee to Mr. Benedict documenting these findings, but the following is a brief summary of the additional topics that are detailed there.

- Employees do not adhere to the standard workday schedule prescribed in the employee manual, often showing up hours late and at sporadic times.

- Employees do not clock out for lunch though the employee manual makes it clear that we do not offer paid time for lunch. Failure to clock out for lunch has the effect of overstating the number of hours worked.

- The employee manual is clear that salaried employees may only be granted limited compensatory time in rare circumstances for extraordinary efforts over an extended period of time. However, the time sheets make it clear that staff uses compensatory time on a routine basis, which results in employees being frequently absent from the office on regular work days without being charged vacation or sick time.

- On several occasions the time sheets show vacation time being used, but the employee's vacation bank not being reduced when the payroll check was issued. The result is that employees receive extra vacation time beyond the Party's already generous policy of four weeks paid vacation annually upon completing two years of employment. In one case the Party made an overpayment of unused vacation time at the conclusion of one individual's employment.

- When an employee takes vacation time, they are frequently credited compensatory time for any overtime worked elsewhere in the pay period so as to reduce the amount of vacation time they are charged. They are only charged whatever amount of vacation time (to the hundredths of an hour) is necessary for their total hours for the two-week pay period to equal 80.00, even though the employee manual clearly states that accrued vacation can only be taken in 4-hour blocks and that we do not offer compensatory time for routine overtime hours by salaried employees.

- The time sheets revealed instances of overpaid holiday pay.

- The employee manual does not mention severance pay as a standard employee benefit. The Audit Committee is only aware of one employee who has an employment contract that contains a severance clause. However, another employee with no employment contract was paid four weeks of severance pay when the Party laid the employee off due to the Party's financial hardship.

- The employee manual makes no provision for paid snow days, yet the time sheets showed instances of some employees being credited for a full day of work as a "snow day", though other employees worked that day. The employee manual prescribes that employees should make up for days they are absent for personal reasons.

- There are numerous examples where employees fail to clock in or out, with manual adjustments later made to correct the payroll records based on guesses. One employee's time sheets are almost exclusively manual adjustments rather than real-time punches. In addition, there are numerous uncorrected errors in the time recorded by employees.

- There are discrepancies between what the time sheets show and what is recorded as compensation.

- There are instances where sick time is used for purposes outside the definition given in the employee manual, and sick time policies are not consistently applied the same way to all employees.

5.2 RECOMMENDATIONS

- We recommend that the Chair monitor staff on a regular basis for adherence to written policies and consider taking disciplinary actions, up to and including termination, for violations that result in payments inappropriately being made to employees unsupported by written policies.
- We recommend that the Employment Policy and Compensation Committee review the vacation and sick time policies to determine whether they are in line with industry standards and report back at the next LNC meeting.

6.0 EQUIPMENT ACQUISITIONS IN VIOLATION OF BYLAWS AND OTHER POLICIES

During 2014, the Party acquired a new copier machine under a non-cancelable capital lease agreement. The lease is for 60 months and requires a monthly payment of $508, a total of $30,480. The Party also acquired a new postage machine under a non-cancelable capital lease agreement. The lease is for 63 months and requires a monthly payment of $179, a total of $11,277.

Instead of recording the assets on the books and the debt necessary to acquire these assets, Mr. Kraus has been posting the monthly payments to an equipment lease and maintenance expense account on the income statement. The effect of this misclassification is that the monthly financial statements did not reveal that staff acquired capital equipment in excess of the $5,000 allowed by the 2014 budget and it also obfuscated the fact that the Party went into debt without LNC approval, which is a violation of the bylaws.

Libertarian Party Bylaws Article 10.5 states:

> "The Party shall not borrow in excess of $2,000 total without prior approval by 2/3 vote of the National Committee. This shall not include current operating debt for trade payables."

Moreover, we note that the underlying budget details for 2014 included a footnote specifying that the $5,000 in the capital expense budget was requested for PCs and other miscellaneous equipment. There was no mention of spending around $40,000 for a copier and postage machine.

In addition to violations of the bylaws and the budget, we do not know if the Party adhered to Board Policy 2.04.3, which requires the chair to approve any contract in excess of $7,500 and that contracts in excess of one year in duration be approved by general counsel prior to being signed by the chair.

We do not know who approved these transactions, why staff did not seek the required LNC approval or why Mr. Kraus chose to post these transactions to the books in a manner that concealed from the LNC the acquisition of these assets and their associated debts.

6.1 RECOMMENDATION

- The bylaws and policies are clear, yet staff did not adhere to those rules. Rules will not be followed if there are no consequences for not following them. The LNC should consider taking disciplinary actions for such violations or they should expect that those rules will not be followed in the future.

Respectfully submitted:

Aaron Starr, Chairman

M Carling

Gary E. Johnson

Appendix A
Chair's Discretionary Fund Expenditures 5/6/12 - 7/29/14

Date	Vendor	Description	Amount
8/14/2012	American Liberty Consulting	North Dakota ballot access petitioning	$ 1,000.00
8/30/2012	Bill Redpath	Greyhound travel for Pennsylvania ballot access challenge	$ 230.00
11/2/2012	Wyvonna Kay Matthews	West Virginia ballot access petitioning bonus	$ 400.00
12/31/2012	Bill Redpath	United Air travel	$ 150.00
5/22/2013	Milton Lukins	travel for West Virginia ballot access petitioning	$ 682.88
6/7/2013	Milton Lukins	travel for West Virginia ballot access petitioning	$ 207.71
6/13/2014	Libertarian Party of Illinois	Illinois ballot access petitioning	$ 1,000.00
12/30/2014	multiple LNC members	travel assistance for cancelled Dallas LNC meeting	$ 1,000.00

TOTAL: $ 4,670.59

Appendix B
Summary of Mr. Benedict's 2013-2014 Moving Expenses Paid by the Party

Date	Vendor	Description	Reimburse Date	Reimbursed to Wes	Direct Pmt by Party
7/31/2013	Corporate & Leisure	travel agency booking fee			$ 30.00
8/7/2013	UPS	shipped several boxes to D.C. from Baton Rouge	10/23/2013	$ 131.83	
8/8/2013	Delta	flight from BTR to DCA			$ 336.60
8/8/2013	Delta	baggage fee for flight from BTR to DCA	8/23/2013	$ 60.00	
8/8/2013 - 8/23/2013	Americana Hotel	temporary lodging in D.C.	8/23/2013	$ 1,169.55	
8/23/2013	Taxi	Americana Hotel to LPHQ Watergate	10/23/2013	$ 15.00	
8/23/2013	Taxi	LPHQ Watergate to DCA airport	10/23/2013	$ 17.00	
8/23/2013	American Airlines	baggage fee for flight from DCA to BTR	10/23/2013	$ 25.00	
8/23/2013	American Airlines	flight from DCA to BTR			$ 505.60
8/26/2013	American Airlines	flight from BTR to DCA			
8/26/2013	American Airlines	baggage fee for flight from BTR to DCA			$ 25.00
8/26/2013 - 8/27/2013	Americana Hotel	temporary lodging in D.C.			$ 162.72
8/28/2013	Best Western	temporary lodging in D.C.			$ 124.29
8/29/2013	Taxi	Best Western to LPHQ	10/23/2013	$ 10.00	
9/6/2013	Taxi	LPHQ Watergate to DCA airport	10/23/2013	$ 16.00	
9/6/2013	Delta	flight from DCA to BTR			
9/7/2013	Home Depot	relocation supplies, boxes, tape, etc.	10/23/2013	$ 35.84	
9/8/2013	Lowe's	relocation supplies, boxes, tape, etc.	10/23/2013	$ 119.82	
9/9/2013	Baton Rouge Packaging	relocation supplies, boxes, tape, etc.	10/23/2013	$ 77.65	
9/10/2013	Baton Rouge Packaging	relocation supplies, boxes, tape, etc.	10/23/2013	$ 114.43	
9/10/2013	Home Depot	relocation supplies, boxes, tape, etc.	10/23/2013	$ 26.11	
9/11/2013	MovingHelp.com	hired movers to help load U-Haul in Baton Rouge	10/23/2013	$ 325.95	
9/12/2013	Baton Rouge Packaging	relocation supplies, boxes, tape, etc.	10/23/2013	$ 17.05	
9/13/2013	Baton Rouge Packaging	relocation supplies, boxes, tape, etc.	10/23/2013	$ 28.79	
9/13/2013	Baton Rouge Packaging	relocation supplies, boxes, tape, etc.	10/23/2013	$ 52.99	
9/14/2013	U-Haul	rent moving truck from Baton Rouge to D.C.	10/23/2013	$ 1,097.08	
9/16/2013	Pilot	gas for U-Haul truck from Baton Rouge to D.C.	10/23/2013	$ 87.43	
9/17/2013	Pilot	gas for U-Haul truck from Baton Rouge to D.C.	10/23/2013	$ 56.19	
9/17/2013	Marathon Petro	gas for U-Haul truck from Baton Rouge to D.C.	10/23/2013	$ 75.00	
9/17/2013	MovingHelp.com	hired movers to help unload U-Haul in D.C.	10/23/2013	$ 156.95	
9/17/2013	Shell	gas for U-Haul truck from Baton Rouge to D.C.	10/23/2013	$ 43.46	
9/17/2013	Quality Inn	hotel on trip from Baton Rouge to D.C.	10/23/2013	$ 93.48	
9/17/2013	Discount Food Mart	gas for U-Haul truck from Baton Rouge to D.C.	10/23/2013	$ 96.69	
9/18/2013	Florida Ave Hess	gas for U-Haul truck from Baton Rouge to D.C.	10/23/2013	$ 54.55	

9/18/2013	Taxi	U-Haul return location to LPHQ - part 1	10/23/2013	$ 12.00	
9/18/2013	Taxis	U-Haul return location to LPHQ - part 2	10/23/2013	$ 13.00	
9/28/2013	Delta	flight from DCA to BTR	12/18/2013	$ 257.60	
10/20/2013	Home Depot	purchases of moving boxes & supplies	12/18/2013	$ 47.28	
10/21/2013	U-Haul	local rental in Baton Rouge to put items in storage	12/18/2013	$ 58.76	
10/21/2013	Shell	gas for moving truck for local Baton Rouge rental	12/18/2013	$ 9.83	
10/21/2013	MovingHelp.com	Movers	12/18/2013	$ 165.95	
10/22/2013	Delta	flight from BTR to DCA	12/18/2013		
10/31/2013	US Airways	flight from DCA to BTR	12/18/2013	$ 213.30	
11/2/2013	Hampton Inn	hotel driving personal vehicle to DC	12/18/2013	$ 116.08	
11/2/2013	Wes	personal vehicle mileage reimbursement	12/18/2013	$ 261.74	
6/18/2014	U-Haul	rent moving truck from Baton Rouge to D.C.	7/16/2014	$ 1,095.45	
6/18/2014	Kangaroo Exp	gas for U-Haul truck from Baton Rouge to D.C.	7/16/2014	$ 100.00	
6/18/2014	Microtel Inn	hotel on trip from Baton Rouge to D.C.	7/16/2014	$ 98.05	
6/19/2014	Texaco	gas for U-Haul truck from Baton Rouge to D.C.	7/16/2014	$ 100.00	
6/19/2014	WilcoHess	gas for U-Haul truck from Baton Rouge to D.C.	7/16/2014	$ 75.00	
6/19/2014	Kangaroo Exp	gas for U-Haul truck from Baton Rouge to D.C.	7/16/2014	$ 98.89	
6/19/2014	Best Western	hotel on trip from Baton Rouge to D.C.	7/16/2014	$ 76.72	
6/20/2014	BP	gas for U-Haul truck from Baton Rouge to D.C.	7/16/2014	$ 58.37	
6/22/2014	MovingHelp.com	movers to unload U-Haul in D.C.	7/16/2014	$ 140.00	

COLUMN TOTAL: $ 7,001.86 $ 1,184.21

GRAND TOTAL: $ 8,186.07

Appendix C
Audit Committee 9/16/15 Letter to Mr. Benedict Regarding Time Sheets

Dear Wes,

We have reviewed the time sheets you have submitted and want to review our findings with you. Please let us know if there is something we are missing or misunderstanding.

The Policy Manual's requirement of employees to record their hours work and allocate those hours is not being followed

Policy Manual Section 2.03.7 *Time Sheets and Expense Allocation* states:

> Each employee shall submit a timesheet at least once per pay period to reflect the number of hours worked, allocating such time to corresponding categories specified in the annual budget. Time sheets shall be reviewed and approved prior to employee time being entered in the payroll system. Payroll costs for each employee shall be allocated to expense categories in proportion with approved time. Separate general ledger accounts shall be used for allocated payroll costs.
>
> Where appropriate, an expense shall be allocated to one category. Expenses that benefit more than one category or that are general administrative in nature shall be allocated to a general administrative account in the general ledger. Those expenses shall then be allocated on a monthly basis to expense categories in proportion to the allocation of payroll costs. Separate general ledger accounts shall be used for allocated general administrative costs.
>
> Monthly financial statements shall separately report allocations of payroll and overhead to corresponding categories.

In addition to making sure that employees are properly compensated for the hours worked, one purpose of Time Sheets is to accurately allocate payroll and overhead costs for the financial statements so that they will be in accordance with Generally Accepted Accounting Principles.

The Executive Director has made some attempt to comply with this requirement, by stating how many hours he is spending on the various categories of activities in the budget, but only intermittently (i.e. several days per month). Other members of staff will record the fact that they work each day (i.e. punch in and punch out), but made no attempt to track how they spend their time. Rather than punching in and out in real time at the office, it appears that Carla instead routinely records her time by overriding her time card the following day. Eric Dixon stopped punching a clock in April and continued to get paid through his termination in December.

The Executive Director is not reviewing and approving details of the time sheets, only the dollars on the payroll report. Robert Kraus' own time sheets are reviewed only by himself.

Hours Worked – Employees do not adhere to a standard schedule, nor do they clock out for lunch

The employee manual includes the following language:

> **Workweek, Workday, and Office Hours**
>
> The workweek runs from Monday through Friday.
>
> The standard workweek for salaried (non-hourly) employees is forty hours. Salaried employees will not earn extra compensation for hours worked in excess of the standard workweek. Extra time worked by salaried employees will be considered during performance appraisal and salary reviews.
>
> Individual employees work schedules and work locations will be determined by the Executive Director, and are subject to change with minimal notice. Employees may request non-standard work schedules and/or locations, which will require Executive Director approval. All employees that have not established an alternative work schedule and location will work according to the standards as established in the Employee Manual.
>
> The standard workday is from 8:45 a.m. until 5:15 p.m., with a half-hour lunch break. All employees are expected to conform to their established work schedules at their established work locations. Unreliable attendance may lead to disciplinary action and/or termination.
>
> **Staff Classifications**
>
> Management and professional positions are salaried. Salaried employees are expected to work a minimum of 40 hours a week, and as long as necessary to get the job done. They do not receive overtime pay for hours worked in excess of 40, though they may occasionally be granted compensatory time off, as discussed in the section on "Timekeeping, Working Hours, and Attendance."
>
> Employees who mainly provide administrative, secretarial, or clerical support are considered hourly employees. An hourly employee's nominal annual salary is divided by 2,080 (40 hours/week x 52 weeks) to determine an hourly rate of pay. Hourly employees are eligible for overtime pay, as discussed in the section on "Timekeeping, Working Hours, and Attendance."

Employees are not abiding by the scheduled work day hours in the employee manual. It is rare that an employee arrives at 8:45 am. The typical employee often arrives hours later and at erratic times, not according to any standard schedule. Sometimes employees don't arrive until the afternoon.

The standard workweek spelled out in the employee manual is forty hours with a daily half-hour lunch break (42.5 hour week less 2.5 hours for lunch); however, Carla, Casey, Eric and Molly never once during 2014 clocked out for lunch. There are four days during 2014 where it appears possible that Robert clocked out for lunch. There are 51 such days for Wes during 2014. Unless most employees are taking a bag lunch to work every single day and only eat at their desk while performing work, it appears likely that their time cards are overstating the number of hours actually worked. Since some full-time employees' time sheets state that they are working barely over 40 hours per week on average (Carla

42.6 hours; Casey 41.1 hours; Eric stopped using the clock in April; Molly 40.2 hours; Robert 43.8 hours; Wes 47.5 hours), it seems likely that if lunches were properly taken into account, the records would show them working fewer than forty hours per week.

Inappropriate use of Compensatory Time

It appears that compensatory time off is being taken on a routine basis, rather than approved in advance for extraordinary circumstances.

The employee manual addresses the issue compensatory time as follows:

> **Compensatory Time**
>
> A salaried employee may be granted compensatory time off for extraordinary efforts requiring very long workweeks over an extended period of time. Each grant of compensatory time must be approved in advance by the Executive Director, and may not exceed 24 hours in any case.
>
> Hourly employees are paid for overtime and are therefore ineligible for compensatory time.

We see instances where employees are absent for all or most of a full day, and the time sheets provide no explanation. Yet, employees are not docked (or charged a vacation day) for missing most of a work day. Effectively, we are giving employees compensatory time beyond what the employee manual envisions:

- Eric absent on 1/15/14 with no adjustment for why
- Carla absent on 2/21/14 with no adjustment for why
- Robert absent on 3/14/14 (worked 0.32 hours probably from home) with no other adjustment
- Eric absent on 3/17/14 with no adjustment for why
- Robert absent on 3/17/14 (worked 0.45 hours probably from home) with no other adjustment
- Robert out on 3/28/14 but worked 0.88 hours from home, took 1 hour vacation
- Carla absent on 3/25/14 but worked 0.30 hours, probably from home
- Wes out 4/28/14 and 4/29/14 with no adjustment, though on 5/1 is a 16 hour adjustment for LPTX convention, still leaving 1 day missing
- Robert absent on 5/5/14 but worked 1.10 hours probably from home
- Robert absent 5/16/14 but worked 0.68 hours, probably from home, and sporadic hours on 5/19 were probably from home
- Wes absent on 5/20/14 but probably comp time for working FL convention over weekend
- Carla was out 6/16/14 (worked 0.85 hours probably from home), charged no vacation
- Robert was out 6/16/14 (worked 0.88 hours probably from home), charged no vacation
- Carla out 7/2/14 and 7/3/14, though was probably comp time from working prior weekend
- Carla out 7/23/14 and 7/24/14 with no explanation, only worked 70.82 hours that pay period but no vacation or sick time charged
- Wes out on 7/28/14 with no adjustment for why
- Robert out on 8/18/14 (worked 1.85 hours probably from home) with no other adjustment
- Wes out on 8/25/14 with no adjustment for why
- Robert out 8/29/14 (worked 1.23 hours probably from home), and out 9/2 (worked 0.77 hours) and out 9/3/14 (worked 0.58 hours) with no other adjustment

- Robert absent on 9/15/14 (worked 1.23 hours probably from home) with no other adjustment
- Wes out on 9/25/14 with no adjustment for why
- Carla out on 9/26/14 with no adjustment for why
- Wes out 10/22/14 with no adjustment for why
- Carla out on 10/30/14 with no adjustment for why, and vacation paid that check was for another day
- Robert out on 11/3/14 (worked 0.6 hours) with no adjustment for why
- Wes out 12/15/14 with no adjustment, but was probably comp time for LNC meeting over the weekend
- PCD 12/31/14 – Robert was out most of 4 days (a few hours worked probably from home), but charged no vacation, though this may be a case where the employee was granted a rare allowable instance of compensatory time for having attended 2 days of an LNC meeting

<u>There are errors where the time sheets show vacation time being used, but we do not charge the employee's vacation bank when the payroll check is issued.</u>

We encountered instances where the time sheet shows vacation was taken, but on the paycheck it is not taken off their accrued time

- PCD 4/23/14 – Eric took 8 hours vacation but 0 taken off accrual
- PCD 7/16/14 – note on Robert's time sheet suggests 1 day of vacation on 6/28/14 which was not taken off his accrued time, but this was during a convention, so not sure if note is correct
- PCD 7/30/14 – Casey was out for 6 workdays, time sheet only shows 40 hours of vacation with no entry for 7/18/14, and only 32 taken off his accrual because one "vacation" entry on timesheet was called "regular"
- PCD 10/8/14 – Eric's time sheet shows he took 2 days of vacation but only 1 day charged to his accrual

As a consequence, employees are getting extra vacation days beyond what they actually earned. And in the case of Eric Dixon, when he was terminated the payment of his unused vacation time included two days he had actually already been paid for.

<u>Employees are not being correctly charged for vacation and sick time</u>

According to the employee manual:

> **Scheduling Vacation**
>
> Vacation must be scheduled in advance, in blocks of at least 4 hours' duration. The Executive Director must approve salaried employees' vacation schedules. The Operations Director must approve hourly employees' vacation schedules.
>
> When your vacation has been approved, send a memo to the staff stating when you will be gone.

Compensatory Time

A salaried employee may be granted compensatory time off for extraordinary efforts requiring very long workweeks over an extended period of time. Each grant of compensatory time must be approved in advance by the Executive Director, and may not exceed 24 hours in any case.

Hourly employees are paid for overtime and are therefore ineligible for compensatory time.

Vacation can only be taken in increments of four hour blocks of time. Time cards show that vacation is being allocated in increments of 0.01 hours.

Employees are expected to work eight hour days and forty hour weeks. Salaried employees are not entitled to earn extra compensation for hours worked in excess of the standard workweek.

If an employee is not working for the day (or claims to be working for a small amount of time from home replying to an email), that employee should be charged for a full eight hours of vacation. That has not been happening. Robert has not been charging them for 8 hours of vacation or sick time. He instead comps them for any overtime worked elsewhere during the pay period and only charges them enough hours of vacation/sick time so the pay period total hits 80 hours. By not clocking out for lunch, it appears they are likely inflating the amount of time worked and using that additional time to reduce the number of hours charged for vacation. By recording small amounts of time worked at home (e.g. answering emails on a day they did not come to the office), those amounts are then used to reduce the number of hours charged to the employee for vacation time.

- PCD 1/15/14 - Eric absent on 1/2/14 and 1/3/14 but only charged 10.35 hours sick time
- PCD 2/12/14 – Carla out 6 days but only charged 39.38 hours vacation
- PCD 2/12/14 - Casey was out 2 days but only charged 9.15 sick time hours
- PCD 2/12/14 - Robert charged 39.65 hours vacation though out 5.5 days
- PCD 3/12/14 – Casey out 3 days but only charged 17.73 hours vacation
- PCD 4/9/14 – Robert out on 3/28 but worked 0.88 hours from home, took 1 hour vacation
- PCD 4/23/14 – Robert out for 2 days with fractional hours worked from home charged 9.68 vacation hours
- PCD 5/7/14 – Casey out 5 days but charged 36.05 vacation hours
- PCD 5/7/14 – Molly out on 4/29 but only charged 4.37 hours vacation
- PCD 6/18/14 – Molly out sick all day but charged 7.85 sick time hours
- PCD 7/2/14 – Wes was out 6 days but charged 38.18 hours sick time (3 of the days he was moving)
- PCD 7/16/14 – Carla was out 4 days but charged 12.65 hours vacation (perhaps 2 days were granted as comp time for working the National Convention over the weekend)
- PCD 8/13/14 – Carla worked about 15.5 hours over 6 workdays but was charged only 25.17 hours vacation
- PCD 8/27/14 – Robert was out 8/15/14 (worked 1.13 hours probably from home) charged 6.92 hours vacation
- PCD 10/22/14 – Carla out all day 10/3 but only charged 5.05 hours vacation
- PCD 10/22/14 – Robert out 2 workdays (though worked ~2 hours/day probably from home) and charged 0.92 hours vacation

- PCD 11/05/14 – Casey out 10/27/14 and 10/30/14, only charged 2.65 sick hours
- PCD 11/19/14 – Carla out 11/10/14 (worked 1.27 hours) and 11/12/14 and 11/13/14 but only charged 7.57 hours vacation
- PCD 11/19/14 – Casey was out 4 days but only charged 28.23 hours vacation
- PCD 12/3/14 - Carla was out 6 days but only charged 16 hours vacation with a note that she thinks she did enough work while gone to justify that difference
- PCD 12/3/14 – Casey was out all day on 11/21 but only charged 4.08 hours vacation
- PCD 12/17/14 – Casey out all day but only charged 2.12 hours vacation
- PCD 12/17/14 – Robert charged 4 hours vacation on a day he worked 2.17 hours, and another day he worked 1.18 hours, and another day he worked 0.8 hours
- PCD 12/31/14 – Carla was out 2 days but only charged 13.25 hours vacation
- PCD 12/31/14 – Casey was out for 5 days but only charged 38.02 hours vacation
- COUNTER-EXAMPLE: PCD 12/31/14 - Wes took 8 hours vacation one day and did not reduce it for overtime he worked during the rest of the pay period – also see full 8 hours vacation for Wes on 2/12 though was over 80 hours for rest of pay period

We found one case where the employee received an advance on vacation accrual:

PCD 1/15/14 – Molly's check stub shows a minus 5.95 hour vacation bank

<u>Overpaid Holiday Pay</u>

The employee manual states:

Holidays and Early Closing Days (for 2014)

- New Year's Day: Tuesday, Jan. 1 (January 1)
- Martin Luther King Jr. Day: Monday, Jan. 20 (third Monday in January)
- President's Day: Monday, Feb. 17 (third Monday in February)
- Memorial Day: Monday, May 26 (last Monday in May)
- Independence Day: Friday, July 4 (July 4)
- Labor Day: Monday, Sept. 1 (first Monday in September)
- Columbus Day: Monday, Oct. 13 (second Monday in October)
- Veterans Day: Tuesday, Nov. 11 (November 11)
- Thanksgiving Day: Thursday, Nov. 27 (fourth Thursday in November)
- Christmas Day: Thursday, Dec. 25 (December 25)

If a fixed holiday (e.g., New Year's Day) falls on a Saturday, it is observed on the Friday before; if it falls on a Sunday, it is observed on the Monday after.

LPHQ closes at 3:00 p.m. on Thanksgiving eve, Christmas eve, and New Year's eve. Employees who are at work at closing time are given two hours of paid time off.

The time sheets awarded 12 hours of holiday pay to Eric, Casey and Molly on 1/1/14. The note associated with that date states that the extra four hours was for not leaving early on 12/31/13;

however, only one of those employees was working after 3:00 pm that date and the manual states that they are only entitled to two extra hours, not four.

Severance

The employee manual does not mention severance as a benefit. We are aware of only one of our employees having a contract that allows for severance. Another employee was granted a severance package not provided for in the employee manual and we assume that she had no employment contract that guaranteed her such a benefit.

Molly executed a termination agreement dated 8/14/14. Her time sheet shows 0 hours worked from 8/8/14 – 8/21/14. On PCD 8/27/14 Molly was paid a full 80 hours though she apparently worked zero and $1,200 severance pay, a combined $2,400 (or four weeks of pay).

Snow Days

The employee manual addresses how employees may be compensated when the office is closed.

> **Office Closure Periods**
>
> LNC retains the right to declare office closure periods. During these office closure periods, all employees may use vacation time earned, or elect to be unpaid during that closure period. LNC will make all good efforts to provide timely notice of such periods.

Some time cards show that employees were out due to snow. Notably, not all employees were out those days.

- PCD 1/29/14 – Molly has 8 hours snow day
- PCD 2/26/14 – Eric & Molly each have 8 hours snow day
- PCD 3/26/14 – Molly has 8 hours snow day

Had the office been closed, no one would have earned pay that day. The employees' time sheets credit them for a full regular day of work. We have nothing in the manual that allows for employees to be paid to stay home during inclement weather. We do have a policy that states that employees should make up for days they are absent for personal reasons.

> **Making Up Personal Lateness and Absences**
>
> Lateness or absence during the day for personal reasons should be made up on that day. If you cannot make up all of the time on the same day, your supervisor may authorize you to make it up during the same workweek.
>
> Because of these flexible arrangements – and to encourage good attendance practices necessary to the conduct of business – lost time that cannot be made up during the same workweek will be deducted from the employee's pay.

There are numerous errors in the time recorded by employees

Many errors appear in the payroll records, where the hours are recorded incorrectly. In addition, there are a high number of instances where the times recorded are manually overridden, which suggests that many of the times attributed are guesses. Human nature being what it is, it shouldn't surprise us if an employee guesses that the amount of time worked was greater than reality.

In some cases, employees forget to punch in/out and Robert will manually adjust the records to show more hours than the employee claims they worked (as noted in the following example Payroll Check Dates):

- Payroll Check Date (PCD) 1/15/14 – 2 instances for Eric
- PCD 1/29/13 – 3 instances for Eric
- PCD 2/12/14 – 3 instances for Eric (note gives conflicting times), 1 instance for Molly
- PCD 3/12/14 – Eric has double manual adjustment for 7.5 hours on 3/5
- PCD 3/26/14 – 1 instance for Eric
- PCD 4/9/14 – erroneous punches for Casey credit him for about 16 hours not worked
- PCD 4/23/14 – 1 instance for Casey
- PCD 5/21/14 – erroneous punches credit Casey with about 15 hours he did not work

In some cases, employees forget to punch in/out and Robert makes no adjustment at all, showing fewer hours than actually worked:

- PCD 1/29/14 – Carla, Eric, Robert, and Wes on 1/23/14
- PCD 3/12/14 – Eric on 2/28/14, Carla on 3/5/14
- PCD 5/21/14 – Carla has no hours in system for 5/14 but a note says she did work, also 5/15
- PCD 7/30/14 – Molly on 7/24/14, Nick on 7/24/14
- PCD 7/30/14 – Robert on 7/24
- PCD 8/27/14 – Carla on 8/20
- PCD 10/22/14 – Carla's note on 10/10 says punch in time was 4.5 hours earlier but was not adjusted
- PCD 11/05/14 – Robert on 10/30, Wes on 10/30, Carla 10/29

There are errors between what the time sheets show and what is recorded as compensation.

We encountered instances where when employees fail to punch in/out, Robert does not put manual adjustments onto their timecards to match the paystubs

- PCD 1/29/14 – Eric paystub shows 4 hours sick time not shown on timecard
- PCD 2/26/14 – Wes charged 8 hours vacation not on timesheet, presumably for 2/12/14
- PCD 5/7/14 – Molly charged 4.37 hours vacation not on timesheet
- PCD 7/30/14 – Molly charged 4 hours sick time not on timesheet
- PCD 7/30/14 – Robert charged 11 hours vacation not on timesheet

<u>Issues with Sick Time</u>

The employee manual makes the following reference to sick time:

> **Sick Time**
>
> Sick time is earned leave that is provided as a contingency for the employee in cases of the inability of the employee to fulfill their duties due to minor illnesses, injuries, and other health issues.

We encountered instances where sick time was used for things other than personal or family sickness

- PCD 1/29/14 – Molly has 8 hours called "sick" on time sheet for snow day, though her accrued sick time was not reduced
- PCD 7/2/14 – Wes was out 6 days but was charged 38.18 hours sick time (3 of the days he was moving)
- Spanning PCD 9/10/14 and 9/24/14, Casey took 10 days off for "funeral" on one time sheet and "family leave" on another, was charged 71.97 hours of sick time

We encountered a number of instances where employees worked for part of a day and were charged for sick time for part of the day. This might be appropriate treatment; the policy is not clear on this. It appears that we are not consistent with how this is implemented. Not all employees are having their sick time banks charged, even when their time cards state that they were ill.

- PCD 2/12/14 - Molly was out half-day on 1/29/14 but charged 2.55 sick time hours
- PCD 4/23/14 – Molly was out half-day on 4/8/14 but charged 2.02 sick time hours
- PCD 4/23/14 – Robert took 3.07 sick time hours
- PCD 6/4/14 – Molly charged 2 sick time hours though was out almost 4 hours
- PCD 6/18/14 – Wes was out 4.25 hours for family medical but took no sick time (others charged when out)
- PCD 7/2/14 – Molly charged 3.97 hours sick time for doctor appointment
- PCD 9/24/14 – Wes out partial days on 9/17/14 and 9/18/14 for doctor appointments but worked over 5 hours each day, no sick time was charged
- PCD 10/22/14 – Wes out for doctor appointment but not charged any sick time
- PCD 10/8/14 – Wes charged 3.47 hours sick time for baby doctor apt on 10/2/14

Once again, thank you for helping us sort this out.

Aaron Starr