Cattlemen's Beef Board
Executive Summary of Report of Agreed-Upon Procedures
For the National Cattlemen's Beef Association Contract Compliance
FY 2008, FY 2009 and the Five Months Ended February 28, 2010

In February 2010, the Cattlemen's Beef Board (CBB) began the process of conducting a routine compliance review of the National Cattlemen's Beef Association (NCBA). As part of this process, CBB engaged a CPA firm, Clifton Gunderson (CG), to perform agreed-upon procedures at NCBA. These procedures were performed to review NCBA's compliance with its agreements with the Beef Promotion Operating Committee (BPOC); agreements which allow NCBA to conduct checkoff-funded programs in the areas of beef promotion, research, consumer information and industry information. These procedures also reviewed compliance of checkoff expenditures of the Federation of State Beef Councils Division of NCBA (Federation). CG performed the procedures for FY 2008, FY 2009 and the first five months of FY 2010 ended February 28, 2010. The procedures primarily consisted of reviewing NCBA's supporting documentation for checkoff expenses, including compensation, to ensure the expenses were appropriate for reimbursement with checkoff funds. Maintaining complete and accurate documentation of expenses which supports the eligibility for checkoff reimbursement is the responsibility of NCBA and failure to do so is considered by CBB to be noncompliance.

Summary of Results

The agreed-upon procedures were performed in the areas of overhead cost allocation, time reported by NCBA staff as the basis for charging salaries and benefits, travel expenses, Federation costs and selection of subcontractors. The following provides a summary of the procedures performed and a brief summary of the results contained in the Clifton Gunderson report. The findings noted in CG's report and this executive summary relate only to the samples tested by CG.

1. Overhead Allocation

Clifton Gunderson tested a sample of 45 expenditures that were included in the overhead cost pool for the eligibility of those items as overhead expenses. Eligible overhead expenses which are reimbursable by CBB are those general and administrative expenses incurred by a contractor that **cannot** be allocated directly to a project, program area or division of the contractor. Examples of eligible overhead expenses include facilities or occupancy costs, depreciation, equipment leases, office supplies, supervisory labor costs and certain other general and administrative costs. Examples of ineligible overhead expenses are project-specific expenses, lobbying, membership activities, revenue development activities, and governance costs. Each BPOC contractor is allowed to bill CBB for the ratable portion of eligible overhead expenses based on the time worked by contractor staff on checkoff-funded programs as a percentage of the total time worked by contractor staff. Recording ineligible expenses to overhead violates the financial firewall.

CG reported that five of the 45 items tested (three in FY 2009 and two in FY 2010) were not eligible overhead expenses, so these expenses should not have been allocated to checkoff programs by NCBA. For example, consulting fees incurred by NCBA to investigate a potential certified beef program for NCBA were included in overhead costs, instead of charged wholly to the policy division of NCBA.

For nine of the 45 items tested (six in FY 2009 and three in FY 2010), CG was unable to determine eligibility of the expenses for overhead due to inadequate documentation of the expenses. For example, in four of the reported instances, a senior staff member did not adequately document his/her travel and meal expenses, so CG could not determine the portion of the expenses, if any, which should have been checkoff funded.

2. Time Reporting and Allocation of Salaries and Benefits

Clifton Gunderson tested a sample of time reports for 25 employees for the months of January 2008, September 2008, April 2009, June 2009 and February 2010. The time reports were compared to the employee's job description, travel expense reports, calendars, personnel leave forms and notes in the time reporting system to verify if the coding of the time agreed with the supporting documents. Contractors bill a portion of each employee's salary and benefits to checkoff-funded programs on the basis of the time worked by each employee on checkoff programs as a percentage of the total time worked by that employee on all programs. The time worked is documented on an employee's time report. Proper time reporting is crucial to the preservation of the financial firewall.

Clifton Gunderson reported numerous instances of improper time coding or improper documentation for time worked for these 25 employees during the five months tested. The following discrepancies were noted:

- In one instance, an employee's job description contained revenue development responsibilities (i.e., membership) for NCBA's Policy Division; however, the employee coded all of his/her time to checkoff projects.
- In six instances, the employees' time was improperly coded based on the supporting documentation. For example, three of the employees tested indicated they participated in a membership revenue development meeting in FY 2009 and charged their time to checkoff projects.
- In 25 instances, CG could not determine if the employee's time was recorded correctly. For example, three employees attended meetings in FY 2008 related to the issue of Country of Origin Labeling of beef products (COOL) and charged their time to checkoff projects. CG was unable to determine how this activity supported the objectives of the checkoff.
- In one instance, CG identified a senior staff member who charged all of his/her time to the overhead cost pool since April 2009 instead of charging time to the specific areas in which he/she actually spent time as required by NCBA's time reporting policy.

3. Travel Costs

Clifton Gunderson tested a sample of 25 travel expenditures for proper coding by comparing the expenses to supporting documentation, such as the employee's time reports and related notes, and the employee's calendar. For 18 of the 25 items in the sample, CG reported that additional inquiry was required because the supporting documentation provided was inadequate and did not contain a clear, detailed business purpose. After additional inquiry, many of the items sampled were either improperly coded or improperly documented. CG noted the following types of discrepancies in this testing:

- For two instances in FY 2009, travel expenses were coded to a different project code than the time recorded by the employees while traveling. For example, travel expenses incurred by an employee were charged to an overhead project code resulting in the allocation of a majority of the expenses to checkoff programs approved by the BPOC; however, the time reported while travelling was charged to several different project codes including NCBA's Policy Division, Governance Task Force and directly to the Checkoff. As a result, CG indicated that NCBA's documentation was not adequate to determine the proper coding of the time and related expenses.

- For six instances, travel expenses were coded to the wrong project code. Of these instances, one was in FY 2008, three were in FY 2009 and two were in FY 2010. Reported examples included travel expenses for NCBA's Spring Legislative Conference, for a Governance Task Force meeting and for an executive staff member's spouse to travel with the employee to attend the Five Nations Beef Conference in New Zealand. These expenses were improperly charged to the overhead cost pool allocated to the checkoff programs approved by the BPOC.

- For seven instances, CG could not determine the proper coding of the travel expenses because there was inadequate documentation provided by NCBA to determine which portion of the expenses, if any, related to the objectives of the checkoff. Of these instances, two were in FY 2008, three were in FY 2009 and two were in FY 2010. For example, travel expenses for a volunteer leader to attend a meeting to determine the feasibility of adding a voluntary investment group to enhance revenue were split equally between the Policy and Federation Divisions.

4. Federation of State Beef Councils Division Costs

Procedures were performed for three types of expenditures incurred by the Federation to determine if the expenditures were in compliance with the Act and Order, as well as NCBA's internal accounting policies.

For the general expenditures of the Federation, a sample of 75 expenditures was selected for testing. CG noted that three of the expenses were improperly charged to the Federation (two related to FY 2008 and one related to FY 2009). For example, a portion of one of the expenditures should have been charged to NCBA's Policy Division; however, all of the expenditure was charged to the Federation.

Clifton Gunderson also reported five instances for which they were unable to determine what portion, if any, of the expense qualified for reimbursement by the Federation. Of the five instances, two related to FY 2008, one related to FY 2009 and two related to FY 2010. For example, one expenditure contained travel expenses for a board member to attend a meeting of the Hawaii Cattlemen's Association, of which 50 percent of the charges were coded to the Federation. Per CG's report, they were not able to validate that 50 percent of the expenses should have been coded to the Federation because the information provided by NCBA was insufficient to make such a determination.

For the Federation Initiative projects, a sample of projects was tested to ensure the project qualified for checkoff funding, the project was approved in compliance with NCBA's policy, NCBA properly monitored the project and the Qualified State Beef Council (QSBC) returned any unused funds to the Federation. Only one exception was noted by CG for unspent funds which were not returned by the QSBC to the Federation.

For Federation projects fully or partially funded with dollars designated for the project by a Qualified State Beef Council, a sample of expenditures was tested to ensure that the funds were spent on a project that qualified for checkoff funding within the project designated by the QSBC. No exceptions were identified in the report for this testing.

5. Selection of Subcontractors

Clifton Gunderson performed procedures in this area to determine if NCBA was in compliance with its policy concerning the selection of subcontractors. Of the four subcontractors tested, CG noted that NCBA did not comply with its policy for two of the subcontractors. NCBA's files did not contain evidence of a competitive bidding process for subcontractor selection, as required by the policy, and these subcontractors were not listed on the approved NCBA Unique Service Provider List which exempts subcontractors from the competitive bidding process.

Conclusion

As outlined above, Clifton Gunderson identified many exceptions as well as numerous items for which the propriety of the charges could not be determined. It is evident from the report that the exceptions and undetermined items identified by CG occurred in all periods tested, but the prevalence was greater in fiscal years 2009 and 2010. In addition, the nature of several of the exceptions and undetermined items reported by CG clearly indicates that NCBA breached the financial firewall during the periods tested and that NCBA did not maintain sufficient documentation in many instances to adequately support the separation of expenditures between the policy side of NCBA and the checkoff side of NCBA. Although not reported as such by CG, CBB considers this lack of sufficient documentation to be noncompliance.