

LNC Executive Committee Meeting

Teleconference August 21, 2002

Present: Geoff Neale, Chair
Ken Bisson (IN), Vice-Chair
Deryl Martin (TN), Treasurer
Steve Givot (CO), Secretary
Mike Dixon (IL), At Large Representative
Mark Cenci (ME), Region 6 Representative
Mark Nelson (IA), Region 8 Representative

Also present: Joe Dehn (CA), Region 2 Representative
Bonnie Scott (NY), Region 6 Alternate (joined in financial discussion)

Absent: None

Vacant: None

Staff: None

The meeting was called to order at 8:33 PM EDT.

Item: Setting of Agenda

Neale said that there are two items on the proposed agenda: reporting requirements for the September LNC meeting and a matter relating to the remaining certificate of deposit.

There was no objection to the proposed agenda.

Item: Financial Matters

Martin reported that staff has acknowledged that not all funds received for the national convention were deposited in the special event (convention) account. He said that staff has also acknowledged that funds were expended from the special event account for expenses that were not related to the convention. He said that apparently the special events account was used to fund general operations which could not be funded from other revenue sources.

Martin reported that as of August 19, the party's total cash balance - including the remaining certificate of deposit - was about \$71,000. He said that total current liabilities on that date were \$216,000.

Martin said that he does not know whether there is a policy to prohibit the use of funds in the special events account for other purposes.

Givot said that he recalls the discussion which took place. He said that at the time he advocated segregating funds received for the upcoming national convention because these funds should not have been realized as revenue until the event actually takes place. He said that - if the convention were cancelled - those funds would have to be treated as deposits and refunded to those who paid for convention events.

Dehn was recognized to speak.

Dehn said that when the current Reserve Policy was established, the special events account was to be excluded from the calculated reserve. He said that - whether or not it was intentional - this means that the financial statements that have been presented were not accurate.

Martin said that among the accounts payable was \$59,000 owed to the Marriott hotel, \$20,000 owed to the audio/visual vendor, and \$13,000 owed for staging.

Martin said that staff has told him that there is a \$4,000 discount built into the audio/visual vendor's bill which will not be realized by the party if the bill goes unpaid at the end of August.

Martin said that Dasbach left a voice mail for him the prior week that indicated that Dasbach would like to cash the remaining certificate of deposit to pay bills.

Martin said that Dunbar has indicated that if the final certificate of deposit is cashed, it would violate policy.

Martin said that he has requested a schedule of outstanding accounts payable showing the vendor, the amount due, and when each becomes 60 days past due. He said that he has also asked for estimates of other bills expected to come due in the coming month.

Nelson asked what revenues are anticipated in the next month or so.

Neale said that there is a letter scheduled to go out in September.

Martin said that he thinks that a house letter went out a week or two ago.

Neale said that he is concerned that as of the end of July, cash minus accounts payable was about minus \$90,000. He said that currently the figure is about \$45,000 higher. He asked where the difference came from.

Givot speculated that it is probably some combination of additional convention-related invoices that were received after the end of July and therefore not reflected on the July financial statements and that August month-to-date revenues have been less than expenses to some extent over the past three weeks.

Martin said that he has asked Dasbach for copies of all bank statements for the special events account.

Martin said that he would also like to see a copy of the contract with the audio/visual vendor to verify the potential \$4,000 discount which supposedly expires at the end of August.

Martin said that he would also like a full listing of all accrued vacation time accounts.

Nelson asked when the issue of the accrued vacation time account first arose.

Neale said that Dasbach and he met on the Sunday of the national convention and that is where he first became aware of the \$66,000 of accrued vacation time. He said that Bill Winter, for example, has accrued 1,928 hours of total vacation time, personal leave, and sick time of which 1,175 are unused. He said that this time can be used for any of those purposes.

Givot said that the rate at which this time is being accrued is extraordinarily generous. He said that he has no recollection of the LNC reviewing or approving this policy or the rate of accrual.

Neale said that the outside payroll service calculates the "potential expense" for this accrued time to be approximately \$105,000. He said that this is understated because payroll taxes associated with such payments are not reflected. He said that the amount of accrued time is climbing at a very fast rate.

Martin said that given the current financial situation, he believes that there is little choice other than for the Executive Committee to authorize the cashing of the final certificate of deposit. He said that simultaneously the Executive Committee should ask the Executive Director to significantly cut costs.

Martin said that Dasbach's response to the suggestion of significant cost cutting would be laying off some staff. He said that Dasbach's response is that this would lead to a "death spiral."

Martin moved that the Executive Committee authorizes cashing the final certificate of deposit for the purpose of paying bills.

Nelson seconded.

The motion passed without objection.

Martin said that he no longer has any faith in any reports that he is being presented by staff. He said that he has no faith that the potential for a \$4,000 discount from the audio/visual vendor is real.

Givot moved that the Executive Committee requests that the Executive Director distribute to the entire LNC - no later than August 31, 2002 - a formal plan to meet the year end calculated reserve level of \$83,000.

Martin seconded.

Givot said he believes that any motion seeking a proposal from the Executive Director for how to address the current financial situation should explicitly state what sort of proposal is wanted, when the proposal is expected to be presented, and what the proposal is expected to achieve.

Dixon said that later in the meeting he intends to move that the Executive Director presents alternative plans for cost cutting. He said he believes that not much will be gained by accelerating presentation of such a proposal by one week.

Neale said that if we accelerate this item, the Executive Director may use it as an excuse to say that he is being set up to fail.

Givot said that if the Executive Director does not already have a plan in mind to address this problem, then he is the wrong person to continue in that position. He said that all that should be required is for the Executive Director to write up his proposal in a form acceptable to the LNC.

Givot agreed to withdraw his motion at this time so that this can be discussed when Dixon's similar proposal is discussed.

Martin agreed.

There was no objection to withdrawing the motion.

Item: Information Requests for the September 2002 LNC Meeting

Neale suggested that the first set of information requests that the Committee should consider be those relating to information to be provided by the party's outside auditors.

Givot moved that Martin be directed to request the following from the party's outside auditors in time for distribution for the September 2002 LNC meeting:

1. A written statement from our auditors as to exactly what was included in *each* of their past three audits to confirm the accuracy of the accounts receivable on our books as well as the effectiveness and propriety of the accounting controls in place by staff to accurately record and report such information. This should include an explanation of whether or not an allowance for doubtful accounts was taken. If so, how much? If not, why not given the aging of the accounts receivable? This statement should also include any comments the auditors made (to anyone) regarding the procedures in effect to accurately track accounts receivable.
2. A written statement from our auditors as to exactly what was included in *each* of their past three audits to confirm the accuracy of any accrued liability for vacation or sick time as well as a quantification of how much of each appeared on our financial records in the audited statements. (These are not broken out separately.) If the auditors did not check or test these figures, an explanation as to why this was not done. If they did review these numbers, did they review the policy underlying these accruals? If no, why not? If so, then what conclusions did they reach regarding the propriety of these policies?

Martin seconded.

The motion passed without objection.

Neale suggested that a subcommittee be formed to review all requests relating to employee-related issues.

Givot said that he believes that this is a better way to approach the employee-related information requests he had suggested prior to the meeting.

Dehn was recognized to speak.

Dehn said that all of the documents other than ones dealing with confidential details relating to a particular employee should be available to the whole LNC.

Neale said that the subcommittee should review the documents and decide which are worth distributing to the whole LNC but that if an LNC member wants a given document, it should be provided to that person.

Dixon said that asking for all of this information may focus the LNC on relatively minor issues instead of focusing on the major financial issues we are facing. He said that there is already a subcommittee dealing with the Executive Director's function.

Givot moved that the review of several items (to be determined later in the meeting) be delegated to the subcommittee regarding the Executive Director's function for review and reporting to the LNC in September.

Dixon seconded.

The motion passed without objection.

Givot moved that the review of the following items be delegated to Dixon's committee with that committee reporting its conclusions for consideration at the September 2002 LNC meeting::

3. Details of all accrued vacation, personal, sick, or other time for each employee showing the number of hours currently accrued in each category and the detail -- by calendar year -- as to when these were accrued.
4. Copies of all employee manuals, procedures, etc.
5. Copies of all operational / procedures manuals for each staff position, if they exist.
6. A chart showing all staff positions (filled or unfilled) and the name of the staffer.
7. A description of the job responsibilities of each position identified above.

Nelson seconded.

The motion passed without objection.

Cenci asked when the report to the full LNC will be presented.

Givot said that he understands that all reports to the LNC are to be distributed two weeks before the LNC meeting.

There was agreement among the Committee that this is correct.

Dixon moved that the following information be requested of the Executive Director to be distributed in writing by the distribution deadline for the September 2002 LNC meeting:

8. A mid-year assessment by the Executive Director regarding progress on all metrics approved at the December 2001 LNC meeting for which an employee is considered responsible. The Executive Director's response to this request should include the most recently available data regarding these metrics with the date of the data clearly identified, an assessment of the projected year-end result, and an explanation as to why any projected shortfall is likely to occur.¹

Givot seconded.

Dixon asked Givot whether his intention is to ask for numerical values for each item or a narrative.

Givot said that he intends the Executive Director to provide a numerical response except for the explanation for any likely shortfall.

The motion passed without objection.

Nelson moved that the following information be requested of the Executive Director to be distributed in writing by the distribution deadline for the September 2002 LNC meeting:

9. Projected year end revenue and expense for each major budget line. To the extent that a negative variance of the greater of 10% or \$5,000 is projected for any major budget line, an explanation as to the reason for the negative variance should be provided.²

Givot seconded.

The motion passed without objection.

Nelson moved that the following information be requested of the Executive Director to be distributed in writing by the distribution deadline for the September 2002 LNC meeting:

10. A cost benefit analysis of all projects that have had the benefit of a special fund raising appeal (Drug War ad, Project Majority, Incumbent Killer). This analysis should detail the funds raised, in what manner they were raised across what period of time, the direct cost of funds (including an allocation toward membership dues at \$25

for new donors), some of the indirect costs (e.g., lower general fundraising using comparative information from prior years), the staff time involved, and the results achieved as they relate to metrics for 2002 (# of members, # of elected officials, expand our support base in terms of new donors/members and total dollars, etc.).

Givot seconded.

Nelson said that he wants this information to be presented for discussion at the September 2002 LNC meeting as part of the LNC's preparation for reviewing the 2003 budget proposal in December 2002.

Givot asked whether this information is needed for September or for the December meeting.

Nelson said that he would like the LNC to evaluate the effectiveness of such projects in September so that the 2003 budget can be drafted based on the LNC's determination of whether or not to proceed in some of these direction.

Martin reiterated that he does not feel that he can trust the responses that staff will provide to such requests to be accurate.

Neale said that if he were in staff's position and saw a similar request, he would conclude that he should be "packing his bags."

The motion passed without objection.

Nelson moved that the following information be requested of the Executive Director to be distributed in writing by the distribution deadline for the September 2002 LNC meeting:

11. An updated sustained giving report for the Archimedes project, removing UMP costs, and a similar sustained giving report for the other significant sources of members, and a summary/budget for the membership growth efforts that are scheduled for the balance of the year.

Givot seconded.

Nelson said that Dasbach has provided this information in the past. He said that it should not be particularly difficult to present updated information. He said that is his intent that the Executive Director's response should be a side-by-side comparison of numbers rather than an anecdotal report or summary.

The motion passed without objection.

Dixon moved that the following information be requested of the Executive Director to be distributed in writing by the distribution deadline for the September 2002 LNC meeting:

12. A summary of time allocation by director to each of the major budget lines.³

Givot seconded.

Dixon said that he would like this data to be presented using the same revenue and expense categories used in the monthly reports on the Revenue-Expense Summary. He said that his intention is that this report shows each director-level employee's time allocation.

Dixon clarified that he would like the report in tabular form.⁴

There was no objection.

Dixon moved that the following information be requested of the Executive Director to be distributed in writing by the distribution deadline for the September 2002 LNC meeting:

13. A mid-year performance review of each director, this must be both a general work-related review and also a review of performance against metrics for the metrics for which each staff employee is responsible as shown in the minutes of the December 2001 LNC meeting.⁵

Givot said that he is concerned that employee performance reviews are rarely provided to governing boards. He said that he believes that having the Executive Director provide such reviews to the LNC would result in the Executive Director writing the reviews differently from what he would otherwise write.

Neale said that he has reviewed the existing employee reviews on file at LPHQ. He said that these reviews tend to show superior to outstanding performance. He said that in his past business experience such reviews general tend to show average performance or acceptable performance instead of universally strong performance.

A discussion ensued in which consensus was reached that if the Executive Director is directed to respond with respect to the next proposed request for information, then the Executive Director would likely have to perform the work associated with this item for the purpose of responding to the other item.

Based on this sentiment, there was consensus that a report on employee reviews would not be requested for the September 2002 LNC meeting and the motion failed.

Dixon moved that the following information be requested of the Executive Director to be distributed in writing by the distribution deadline for the September 2002 LNC meeting:

13. A proposal for downsizing the LP National HQ by the amounts of \$10,000, \$15,000, and \$20,000 per month. These proposals must show the time line of the downscale, the monthly savings in dollars for each month of implementation, the cost in dollars (both one time and those paid over time), and the cost in projects which will be left unaddressed.

Nelson seconded.

A discussion ensued in which a consensus was reached that the Committee should not direct staff to implement any particular solution. Instead the Committee made it clear that it is seeking the Executive Director's recommendation for the most appropriate places to make spending cuts.

The motion passed without objection.

Bisson left the meeting at this point.

Neale reported that the accounts receivable summary that he recently distributed by email excluded several items where staff claims the bookkeeping system incorrectly includes in accounts receivable certain items which - staff claims - have already been removed from the system. He said that the software vendor said that a \$6,000 upgrade would be required to address these claimed software problems since the software vendor no longer supports the product which the LPHQ uses.

Givot suggested that the outside auditors be asked to determine what adjustments need to be made to the financial records of the party to correct any such errors.

Scott was recognized to speak.

Scott volunteered to visit LPHQ to assist in resolving this problem.

Givot said that he believes it would be inappropriate for a member of the governing board to perform this function.

Neale said that the Committee needs to be able rely on staff to perform bookkeeping and other basic business functions. He said Scott is welcome to volunteer her time to assist the staff. He said that he - as Chair - cannot and will not direct staff as to how to function.

Dehn was recognized to speak.

Dehn said that he has assumed that all reports that do not relate to personnel matters would be treated as has been the case in the past - as available to all members. He asked whether the Executive Committee intends that reports that do not relate to personnel matters would be available to the membership.

Neale said that anything that relates to specific employees or the possibility of general staff reductions should remain strictly confidential.

Dehn was recognized to speak.

Dehn said that he is concerned if things that were previously part of the monthly reporting requirement are now being recast as confidential.

Dixon said that he believes that items 3 and 13 are the only items that are to be treated as confidential.

Neale concurred.

Dixon said that whatever his committee reports out to the full LNC will not be confidential.

Dixon said that he believes that the current accounts receivable report drafted by Geoff Neale should be distributed.

Givot said that it should be accompanied with a clear disclaimer to acknowledge that this information may be inaccurate and, thus, it should be considered confidential in order to avoid potential legal liability. He said that, by this, he intends that it be available to every LNC member and alternate, but that they be instructed that they are not to share or discuss this information with anyone other than another LNC member, alternate, or the Executive Director.

Dehn was recognized to speak.

Dehn asked why any remaining questions about the accuracy of the party's accounts receivable have not been resolved in the past several weeks.

Neale said that the staff is not used to responding rapidly to such matters.

Givot moved that

14. A report be prepared for the period from June 2000 through July 2002 (inclusive) showing the following information:

- The month end net worth of LNC, Inc. as shown on the party's balance sheet.
- A reversing entry for accrued future pledge revenues, if these are included on the balance sheet.
- A reversing entry for accrued UMP liabilities if these are included on the balance sheet.
- A reversing entry for any accounts receivable shown on the balance sheet.
- The monthly accrual of net incremental vacation/personal/sick time as reported to the party by its payroll service.
- The adjusted month end network of LNC, Inc. after making the reversing adjustments identified above.

Martin seconded.

Givot said that he believes that the LNC should see a side-by-side comparison of the net worth reported over the past two years by staff - on one hand - and the adjusted net worth excluding accounts receivable (which are dubious at best), fully accruing vacation/personal/sick time, and excluding the auditor-provided year-end adjustments for UMP expense and pledge revenue. He said that he believes that the adjusted net worth numbers provide a far more conservative and accurate assessment of the party's past net worth. He said that he believes that the adjusted net worth values will show that the party has been in serious financial trouble for a long time and that this fact was concealed by the staff's election to understate accrued vacation/personal/sick time as well as the systematic overstatement of accounts receivable. He said that these factors are significant and material as compared to the net worth value shown on the party's past financial statements.

Discussion ensued as to whether there was confidence that the staff would understand this request and could reasonably be expected to provide the requested report.

Scott was recognized to speak.

Scott volunteered to travel to LPHQ, gather the information, and provide the report in a timely manner.

There was no objection to Scott undertaking this project.

Neale said that he would contact staff to assure that Scott was provided the needed information to produce the report in a timely manner.

The motion passed without objection.

Neale said that - unless there is objection - he intends to appoint a committee to review the 2002 national convention. He said that he plans to include Haugh and Dehn on that committee.

Item: Staff Attendance at September 2002 LNC Meeting

Martin suggested that - due to financial concerns - costs should be cut at the September 2002 LNC meeting. He suggested that the only employee attending the September 2002 LNC meeting should be the Executive Director.

Neale suggested that other costs such as refreshments should also be eliminated due to financial concerns.

Martin moved that only the Executive Director should attend the September 2002 LNC meeting and that no refreshments should be provided.

Nelson seconded.

The motion passed without objection.

The meeting adjourned at 12:15 AM EDT August 22.

Endnotes:

1. The following metrics were proposed by the Executive Director and adopted by the LNC at its December 2001.

| Goal | Type | Responsible | Description | 2002 |
|------|--------|---------------|---|-----------------|
| 1 | Metric | Crickenberger | Libertarians in elective office | 340 |
| 1 | Metric | Crickenberger | Libertarian candidates (target/actual) | 2002 |
| 2 | Metric | Pilcher | % of data of core and critical activities provided by affiliates to national LP | 10 items 50% |
| 2 | Metric | Pilcher | Affiliates with active written plan to improve performance | 12 |
| 2 | Metric | Crickenberger | Ballot access self-sufficiency (presidential) | N/A |
| 3 | Metric | Dasbach | Dues-paying national members | 35,000 |

| | | | | |
|---|--------|---------------|--|---------------------------|
| 3 | Metric | Dasbach | National party revenues | \$3.3M |
| 4 | Metric | Brandl | College & university campus contacts/organizations | 250 75 |
| 4 | Metric | Brandl | Market share: % of youth who self-identify as libertarian | 1.70% |
| 5 | Metric | Crickenberger | Total # voting for at least one Libertarian / total votes for all Libertarians | increase over 4 years ago |

2. The term "major budget line" identifies the categories found on the Executive Director's standardized monthly report spreadsheet, tab "Rev-Exp Summary." The specific items are those in Column B of that spreadsheet page which are adjacent to numbers in Column A. These include, for example, Governance, DM House List Fundraising (Annual Report only), DM Membership & Subscription Renewals, etc. For every major budget line there should be a column identifying the name of the major budget line, the budgeted revenue, the budgeted expense, the projected full year revenue, the projected full year expense, the projected full year revenue variance, and the projected full year expense variance. A narrative explanation of the projected negative variance is expected only for those major budget line items for which the projected negative variance exceeds the indicated reporting thresholds.

3. See endnote 2 above.

4. Said that he intends that the report would be presented in tabular form with one row for each major budget line identified in endnote 2 above. He said that columns would identify the major budget line name, and a column for each director-level employee including the Executive Director. The entries would reflect the percentage of a given director-level employee's time spent on each major budget line.

5. See endnote 1 above.