

Liberty for America

Journal of the Libertarian Political Movement

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December 2013

Buchman Resigns from LNC Audit Committee Cites “Culture of Dishonesty”

Editorial

Republicans deserve to lose for banning abortions. Republicans deserve to lose for plotting to make our daughters to die of back alley abortions. Republicans deserve to lose for being bigots who oppose immigrants if their skin is the wrong color. Republicans deserve to lose for being idiots who deny global warming, evolution, vaccinations, and the ability of the state of Hawaii to record births reliably. Republicans deserve to lose by threatening to blow up the economy over the ACA. Republicans deserve to lose for torturing prisoners of war, fighting the war crimes campaign against the people of Iraq, and spying on all our phone calls and emails.

Democrats deserve to lose for assassinating an American citizen who was not suspected of any crime. Democrats deserve to lose for waging war in country after country, including Mali, Uganda, Sudan, Yemen, Somalia, Nepal, the Philippines, Afghanistan, Serbia, etc etc etc. Democrats deserve to lose for recording every phone call and every email message in the world, or as close as they can get. Democrats deserve to lose for organizing the police assault against Occupy movements in dozens of American cities. Democrats deserve to lose for their habitual assaults on the Second Amendment.

Contents

The Libertarian National Committee created our news this month. The LNC was presented with a new budget. The revenue and spending proposals are on Page 11 of the electronic edition. The response to limited spending is to increase spending on staff and reduce spending on Brand Development and Candidate support. The LNC will again vote on setting minimum *floor fees* for National Convention delegates. Chuck Moulton gives us a letter, page 3, explaining the errors in this idea.

The LNC Audit Committee, chaired by Aaron Starr, made a series of revelations about the conduct of LNC business. The Audit Committee Interim report asserts: Former Executive Director Carla Howell was paid \$20,000 for moving expenses; LNC At-Large Member Michael Cloud was paid \$38,800 by the LNC; The LNC Staff altered invoices after they were submitted to the LNC.

We heard from people who believe that the Civil War was not about slavery. The electronic pages include Texas and Mississippi statements of causes unambiguously proving the contrary.

Joseph Buchman of Utah has resigned from the Libertarian National Committee (LNC) Audit Committee. In an extended letter published on Independent Political Report, Buchman listed reasons for his resignation, notably

** “a culture of dishonesty that makes an audit difficult if not impossible”,*

** “vacuum of oversight”*

** “lack of basic professional business practices that would have made an audit much easier, and much quicker than what was caused by a relative lack of transparency, “*

** “delayed invoices (even as late as yesterday!),”*

** “unclear work product,”*

** “slowness and obstinance in responding to initial requests (especially prior to Chair Neale directing staff to comply) then slowness after that, and nothing after Geoff reversed course and pulled the plug.”*

** “what I considered to be a threatening phone call around 6pm pacific time on October 15 from Geoff Neale...”*

[Buchman’s description of this call appears in his letter. Buchman’s letter appears at the end of this article.] Buchman also cites fatigue at dealing with all of the above, not to mention dunning phone calls from collection agencies trying to collect from the Johnson campaign by phoning him, as reasons for his resignation.

Buchman continues to serve as interim chair of the Platform Committee. In 2012, Buchman had been a candidate for LNC Treasurer; for a time, he was active with the Johnson 2012 campaign.

The primary issues at hand are the Interim Reports of the LNC Audit Committee, whose texts appear in the electronic edition of this newspaper, beginning on page 12. These reports describe an extensive series of features of the conduct of LNC financial operations. At this stage, the controversy is about the reports themselves, not disputes about the facts. We expect those will come in time, and look forward to covering them.

Those reports are discussed in following articles.

The LNC Audit Committee, elected by the non-officer members of the LNC, includes one non-officer LNC member and two people who are not LNC members. The committee is

charged with selecting an external auditor and explaining external auditor's report.

Buchman's letter on IndependentPoliticalReport.com reads: "That is partly true. [GP: responding to a comment "You didn't like what the committee was doing and you resigned."]

I remain of the opinion that through at least October 15 we did more good than harm (if any at all of the latter).

I resigned largely because, although we were doing what needed to be done, I didn't feel it was our job to be doing it.

You could also say I resigned because I didn't like what others were doing/had done — namely the lack of basic professional business practices that would have made an audit much easier, and much quicker than what was caused by a relative lack of transparency, delayed invoices (even as late as yesterday!), unclear work product, slowness and obstinance in responding to initial requests (especially prior to Chair Neale directing staff to comply) then slowness after that, and nothing after Geoff reversed course and pulled the plug.

One of two precipitating causes for my resignation was what I considered to be a threatening phone call around 6pm pacific time on October 15 from Geoff Neale where he told me Aaron would be removed, Brett had agreed to resign when confronted with the inappropriateness of his service on the Audit Committee while being/after being a vendor (I was told Brett initially disagreed until confronted with the idea that Michael Cloud could have been elected to serve on the Audit Committee — and how a new policy would soon be approved, and easily adopted, to prevent any vendor from being so elected) and that I needed to prove I was not complicit in, nor aware of, their misdeeds, and I needed to do so immediately. He shared this by way of explanation of why my request to be included on the LNC Audit Discuss list had been rejected — because they needed to discuss the out of control audit committee. Additionally he told me that he had contacted the independent auditing firm directly to confirm that what we were doing was not appropriate, and that the audit for 2012 was going to be completed soon, with or without us.

This was a violation of our independence (we were elected by the non-officers) that is perhaps the most egregious of the various inappropriate acts involved in this mess.

I waited six days without mentioning this to anyone, even my wife; then decided to offer my resignation, rather than be the only member of this committee to go on into what was to have been the second year of my term.

Additionally I had told the LNC during a conference call about the audit, one that neither Brett nor Aaron were on (and perhaps had not been invited to be on), that I shared their frustration at the delays, and that "If the audit is still going on in October, it will do so without me."

I felt I should keep my word in the matter.

Bottom line, there is, IMO a culture of dishonesty that makes

an audit difficult if not impossible, and there was a vacuum of oversight that this committee, inappropriately IMO, attempted to fill.

That said, we did not create the vacuum, and whatever improprieties were conducted by the committee or its chair, Mr. Starr, pale in comparison to those who are currently the focus of that audit, as well as, IMO, the LNC Chair's actions to try to force a completion of the 2012 audit by turning on alleged misdeeds by the three of us, rather than . . . elsewhere.

Finally, my other concern is the non-transparent, page after page of payments to "Political Advisers" on the GaryJohnson2012 page at FEC.gov. I think this could reflect badly on the LP at large and indeed the other precipitating cause for my Audit Committee resignation was voicemail left on my personal cell phone from a collection agency threatening me with legal action involving an unpaid \$9,000+ bill for a Twitter account (the third such collection agency that has contacted me this year for unpaid Gary Johnson campaign debts). I remember thinking that this is NOT the "Party of Principle" that I had joined and that I want nothing more to do with any of it. So on that impulse I sent off an offer of resignation to the Chair of the LNC. In retrospect, I wish I'd waited a bit and/or talked to Brett or Aaron first.

I'm far from perfect. Am sure I could have done better. Am going to try to do so as interim chair of the Platform committee. Still don't understand, at least not fully, why I do many of the things I do, and this resignation is surely one of them. But I hope the above helps explain things."

Thus ends the letter from Dr. Joseph Buchman.

LNC Audit Committee Sparks Major Controversy

Interim reports of the Libertarian National Committee Audit Committee, chaired by Aaron Starr, have sparked vigorous disputes on the LNC and libertarian blogs. More follows

LNC 2014 Budget

The 2014 draft budget of the Libertarian National Committee has been unveiled. Relative to the last non-Presidential election year, it features an extra \$142,700 in compensation, \$17,000 more in Program Project Other, but \$49,000 less in brand development, \$25,000 less in candidate, campaign, and initiative support, and \$5,000 less in ballot access petitioning. The net change from four years ago and its actual spending is an

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increase of \$107,000.

On the revenue side, expected changes from four years ago in dues, donations, and recurring gifts are a decrease by \$34,000. A board solicitation program that has not existed in years is supposed to bring in \$60,000. Relative to 2010, Project Program Revenue is supposed to go up \$130,300 over four years ago. The net of these is that revenue is supposed to go up \$30,400 relative to four years ago and \$241,000 relative to last year. In the middle of all this the National Convention is supposed to cost \$132,500 and break even.

What do all these changes tell us? Relative to this year, dues are supposed to climb more than \$63,000, meaning 2500 extra members. Membership is actually quite flat. The LNC members are going to solicit another \$59,000. Program project revenue, mostly for the building, will be \$135,000, down \$135,000 from this year. Ignoring the convention, LNC income is supposed to increase by close to \$110,000.

Expenses for fundraising and membership fundraising go up by more than \$70,000, from \$194,000 to \$262,300, so most of the increase in income matches extra predicted fundraising costs. Said otherwise, the LNC will spend an extra \$70,000 on raising money, but income net of the convention will only rise from 1.271 million to 1.380 million, an increase of \$110,000. Of that \$110,000, \$60,000 is credited to board members soliciting major gifts, an activity that does not cost the LNC money. The \$70,000 in increased fundraising costs a total of only \$50K in new income, which seems not to be an ideal proposition.

Perhaps the membership will be discouraged because it sees where its money is going. The LNC will have, net of the convention, an extra \$50,000. Its response is to increase administrative costs by \$21,000 and compensation by \$76,000, thus eating up the increase in income. Twice. It will also spend an extra \$104,000 on ballot access petitioning. It manages this because it claims a surplus this year of \$179,000, which next year falls to \$24,500. There will be no money next year for youth outreach, campus outreach, or candidate support.

Letter From Chuck Moulton Opposing Floor Fees

Libertarian National Committee,

I strongly object to a mandatory floor fee for delegates and urge the full LNC not to impose such a fee for the 2014 convention.

I have already written about this issue extensively. Rather than rehash my points in a long email, I will simply link to my past writings and add one additional point that recently surfaced.

First, I sent the LNC a letter in March of 2012 urging it to overturn the floor fee imposed by the convention committee for the 2012 national convention. In that letter I discussed the floor fee as relates to bylaws, Robert's Rules, a poll tax, subsidization, and the cost of conventions. I stand by all of these points.

Moulton open letter to the LNC (re-posted in its entirety on Independent Political Report): <http://www.independentpoliticalreport.com/2012/03/moulton-open-letter-to-lnc-regarding-floor-fees/>

Second, I sent a brief to the judicial committee in June of 2012 on the floor fee issue. In my brief I responded point by point to briefs from the convention oversight committee and from Thomas Balch, which were so riddled with non sequiturs I had to chime in. Seeing as floor fee proponents persist in making many of those same points, this brief endures as a useful refutation thereof.

Moulton judicial committee brief (re-posted on pages 11-23 of George Phillis' Liberty for America newsletter): <http://www.independentpoliticalreport.com/wp-content/uploads/2012/06/May-June-Liberty-for-America-2012.pdf>

The judicial committee upheld the LNC's 2012 registration fee, which I believe was a grave mistake. I find the minority opinion much more compelling than the majority opinion.

Judicial committee opinion: <http://marketliberal.org/LP/JudCom/2012Ploeger/Opinions.pdf>

Third, at the 2012 convention a majority (but less than 2/3) of delegates voted to prohibit future floor fees — specifically, 165 delegates voted in favor of prohibiting floor fees; 112 voted against prohibiting floor fees. That same amendment was in the 2010 bylaws committee survey, with 85.8% of 592 survey respondents who were LP members in favor. The will of both convention delegates and LP members on this matter is quite clear.

Registration fee bylaws amendment proposed by Lark (page 12 of the 2012 Libertarian Party convention minutes): www.lp.org/files/2012-Libertarian-Party-Convention-Minutes.pdf

Fourth, a bit of new information: Many proponents of a floor fee argued that Robert's Rules of Order supports such a fee. However, the bylaws committee of the National Association of Parliamentarians recently weighed in on the matter, writing "Members should not have to pay to vote." in urging members to defeat a bylaws proposal moving from conventions to mail voting and imposing a fee for such voting (Balch was on that committee). The amendment was not adopted in convention. NAP bylaws committee recommendations (page 25 of Notice of Amendments to NAP Governing Documents for the 2013 Convention): <http://63.247.128.171/getdocument.php?id=1979>

For the reasons above, I strongly oppose imposition of a mandatory floor fee for delegates.

If anyone would like to discuss the floor fee issue with me further, I am available by email or by phone at 215-768-6812. Chuck Moulton Interim Chair, 2014 LP Bylaws Committee Chair, Libertarian Party of Virginia
P.S. I speak only for myself here, not for the 2014 LP Bylaws Committee or for the Libertarian Party of Virginia..

State News LP Nevada Elects New Officers

At a well-attended State Convention, the Libertarian Party of Nevada elected new officers. The former officers, whose acts including disaffiliating their county chapters and cancelling a state convention, withdrew from the scene as their support faded away.

Elected Chairman: Brett H. Pojunis

Elected Vice Chair: Jason Smith

Elected Secretary: Lou Pombo

Elected Treasurer: Tim Hagan

Elected Northern Region Rep: Jim Keith

Elected Southern Region Rep: Ronald Johnson

Elected At Large Rep: Jimmy Johnson

Elected At Large Rep: David Colborne

Elected At Large Rep: Jim Duensing

DC Party to run Candidates.

The District of Columbia Libertarian Party has ballot access, a primary, and via petitioning is running candidates for city office : Bruce Majors for mayor. Frederick Steiner for city council at large. Sara Jane Panfil for delegate to Congress. At least two more DC Libertarians may yet reach their party primary ballot.

Florida Special Congressional Election

Lucas Overby raised the \$10,400 filing fee to be on the ballot

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Liberty for America will be performing political acts, and other activities that the Federal government calls "Federal Election Activity" and hence FEC-reportable. We must therefore funnel dues to our PAC, "Liberty for America". Dues will not be used to support candidates.

Your Donations are not tax deductible. Federal law requires us to request the occupation and employer of donors of \$200 or more in a year. Paid for by Liberty for America. Your donations may be used in relation to a Federal Election. We can only accept donations made by American citizens with their own money.

Liberty for America

Welcome to Liberty for America!

A magazine. A web site. An organization. **Liberty for America** has had several inquiries on launching **Liberty for America** Chapters across America. A draft set of state/regional By-Laws appears on the **LibertyforAmerica.Com web site.**

for the March 11 Congressional District 13 Special Election. A Democrat and a Republican will also be on the ballot.

Oregon Appeal

In the ongoing Libertarian Party of Oregon lawsuit, the Reeves faction has filed notice that it is appealing the unfavorable decision they had been given in their suit against the LNC's affiliate in Oregon. The actual appeal, as opposed to the notice that there will be an appeal, is still forward in time from here.

Gray Defends Teddy Roosevelt

In a series of editorials, 2012 Vice Presidential candidate James Gray has spoken up in support of former President Teddy Roosevelt and an article *The Police as Noble Servants*, in defense of the sterling quality of American local police forces. His editorials, some of which have been reprinted on Independent Political Report, turned out to be somewhat controversial in libertarian circles.

Liberty for Florida Organizes

Joe Wendt of Tampa, Florida is organizing Liberty for Florida on the Liberty for America model. Liberty for Florida has a Facebook group at facebook.com/groups/423903344386736/

Wendt writes of Liberty for Florida "This is the Florida affiliate of Liberty for America. Liberty for America exists to build an effective pro-liberty movement in America, a movement separated from the flat-earther bigot cesspit that is modern American conservatism, a movement separated from the *Après moi, le déluge* philosophy of the Congressional duopoly party, a movement that stands against good-old-boy scratch-my-back incompetence and corruption. Liberty for America is preparing to offer positive political alternatives not available elsewhere."

Bad Weather; LNC Building

The LNC Meeting scheduled for December 7 was postponed for a week by bad weather. Issues forthcoming at the meeting included the Audit Committee Report, Goals for 2014, the yearly budget, and the Building. We have heard that the negotiations on the 3% of a building did not advance, the negotiations on a property on Duke Street did not advance, but there is another property on Duke street at about the same location. The quoted price for one of the Duke Street properties was \$950,000 for 2854 square feet, meaning over \$300 a square foot.

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LNC Audit Committee Reports

And now we reach the centerpiece of the issue, the Second Interim Report of the LNC Audit Committee on 2012. Audit Committee members were Aaron Starr (chair), Brett Pojunis, and Joe Buchman. The following is very much compressed from the full document as carried in the electronic pages. What you are now about to read is what the Audit Committee said; the complete truth may differ from the following.

The Audit Committee document reports six sorts of issue. The last, on FEC reports, it asked be kept confidential, so we will not discuss it farther here. The issues as described by the Audit Committee were 1) Related Party Transactions with LNC Board Member Cloud, 2) LNC Funds Used to Pay Personal Expenses of the Executive Director, 3) Other Questionable Employee Benefit Practices, 4) Errors in Accounting Records, 5) Issues not yet addressed, 6) FEC Reports (on which no more will be said). The Audit Committee made a series of recommendations

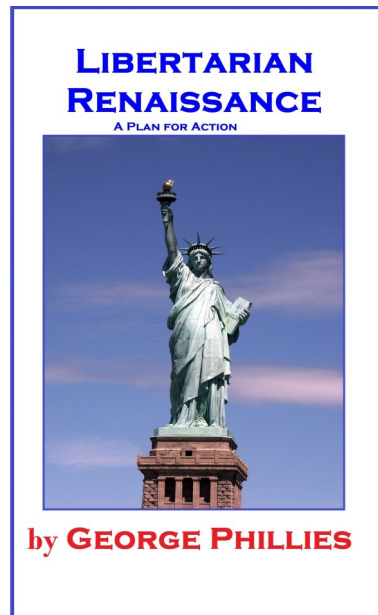
Issue 1: The LNC Policy Manual requires that contracts must be in writing., that Contracts in excess of \$7,500 need approval by the Chair; contracts for more than \$25,000 need first to be reviewed and approved by the LNC's Attorney.

The Audit Committee reported at the July 2013 LNC meeting that payments of \$38,800 had been made (as reported in this newspaper, based on FEC filings) to board member Michael Cloud. However, there was no written contract. Invoices from Cloud lacked itemized details and were for round dollar amounts. The invoices promised details at a later date, which effectively they requests advanced payments. Party bylaws require Generally Accepting Accounting Principles, meaning in this case that the details of transactions with related parties must be disclosed, requiring information that the Audit Committee had requested June 2013 but not yet received.

The Audit Committee noted parallel transactions with another party-related vendor in which it had received the same types of information. For fundraising services (including writing services), the Committee asked for gross amounts of money raised and the net amounts after direct costs, plus a listing of the donations. For writing services, the Committee also asked for copies of the work.

Information took a while to appear. In October, some had yet to be received. The Committee uncovered a July 2013 invoice from Cloud which gave a detailed breakdown of the items he had produced and the money raised, plus the formula "... purportedly used for calculating Mr. Cloud's compensation..." The Audit Committee found from the metadata that some of the material for which Cloud had been paid was recorded as being written by Carla Howell. [GP: It turned out that Cloud dictated material over the telephone, which Howell transcribed.] The Committee then decided it could not rely on Staff assertions to identify what Mr. Cloud wrote, so it requested the emails showing Cloud had sent the 37 documents for which he had been paid.

Staff claimed that the July 2013 invoice was generated by



Libertarian Renaissance

George Phillipies has created and published a new edition of the New Path Plan for saving our party.

Libertarian Renaissance is an update of the 2010 edition with new information.

The volume is available on

Amazon Kindle
[amazon.com/Libertarian-Renaissance-Essays-Liberty-ebook/dp/B00E1SVGAK](https://www.amazon.com/Libertarian-Renaissance-Essays-Liberty-ebook/dp/B00E1SVGAK) and

Smashwords
[smashwords.com/books/view/339159](https://www.smashwords.com/books/view/339159)

for ninety-nine cents.

Cloud in late December 2012. However, the facts did not appear to support the assertion. The issue was the estimated amount raised by each fundraising letter. According to the Audit Committee, the amounts reported on the invoice were larger than the donations known as of December 2012. The numbers did match or were slightly less than the totals in the database supplied by the staff. However, Mr. Kraus' database of donations included gifts all the way through August 1, 2013. According to the Audit Committee the Staff claimed that Cloud's invoice included estimates of future gifts, estimates made many months in advance and exact to the dollar. The Audit Committee found that claim to be difficult to believe. They believed that a "...more reasonable and probable explanation was that this new invoice had been created in July of 2013, not December of 2012, by LNC board member Cloud with the assistance of one or more staff members."

There were also commissions for email solicitations. However, there is currently no mechanism to determine if a particular donation was caused by a particular email solicitation. Instead, "...any non-membership online donations from a 3-5 day period following each email solicitation were attribut(ed) to that email appeal." "The Audit Committee concluded that staff could not reliably document the amount of money that Mr. Cloud's efforts generated, and therefore we could not craft a financial statements disclosure footnote based on such figures."

"...The Audit Committee challenged the reasonableness of the explanation that no supporting documentation existed for the editing of three issues of LP News, the authoring of 28 written fundraising appeals and six major party news releases, because Mr. Cloud did this predominantly by dictating original content and edits over a telephone and rarely, if ever, made use of an email account or computer to perform this work..."

There then followed a period in which the Audit Committee was trying to obtain copies of the emails transmitting the final work. Before this happened, a new invoice appeared. The list of

work items on the new invoice was not the same as the list on the old invoice. Also, the invoice's metadata indicated that it had been edited by Carla Howell. New Executive Director Wes Benedict then supplied 44 emails between Howell and Cloud during the contract. Some emails had been partially redacted with redactions indicated. The Audit Committee claims that on an email which had not been noted as having been redacted, one portion of the header information was visibly altered. The Audit Committee then wondered if the other materials they had received were unaltered.

The Audit Committee then tried to reconstruct from incomplete documentation how much the LNC had paid for the writing. The Committee was able, it indicated, to substantiate writing for which the LNC paid roughly \$26,000. The corresponding Word Documents show the documents had been open on a computer for around 3,900 minutes, suggesting that the LNC had been paying approximately \$400 per hour for the writing. [GP: I have colleagues who write in their minds, including the physics equations, sit down only when they are ready to type, and then type fairly swiftly the material they have previously plotted in their minds, so in your Editor's opinion this estimate may be the best that can be done, but it is not necessarily other than an upper bound on the hourly rate.] The Audit Committee then proposed instead footnoting the transaction as "...22,500 words for fundraising appeals and news releases at a cost of about \$1.72 per word \$38,800..."

The Audit Committee finally reminded readers that the entire point of the exercise was to craft a footnote detailing the financial interaction between the LNC and one of its members, and that they had now done so, so they were finished.

The Audit Committee closed this part of the work with a discussion of issues, presumably issues that the LNC might wish to consider farther. We quote those in full.

"1.12 INITIAL CONCLUSIONS:

- *The Policy Manual was violated in that there was never a written contract between the LNC and Mr. Cloud that was approved by the Chair and reviewed by General Counsel.*
- *Ms. Howell approved the payment of \$38,800 to Mr. Cloud based on invoices that lacked supporting details explaining how the amount due was calculated.*
- *Staff assisted with constructing for the Audit Committee a detailed invoice and claimed that it was created around the time of the final payment in December 2012, while the information in the document could not have been known until July 2013. Chairman Neale agreed with our suspicion that staff constructed documents after the fact.*
- *Staff later provided the Audit Committee with a further revised detailed invoice that removes several works previously attributed to Mr. Cloud and adds several, including some that Mr. Cloud had previously agreed to do for free. The metadata of this revised invoice shows that Mr. Cloud authored the invoice and Ms. Howell edited it. Staff altered an invoice pre-*

pared by a vendor, who also serves above them in the organization, namely as a board member.

- *Commissions based upon \$119,618 raised by email fundraising are not supported and cannot be solely attributed to Mr. Cloud because there is no tracking mechanism to link website contributions with email solicitations.*
- *It took an inordinate amount of time for Staff to forward to the Audit Committee forty-four emails between Mr. Cloud and Ms. Howell intended to show that Mr. Cloud wrote the documents for which he received payment. The Audit Committee found evidence that the emails were altered.*
- *No evidence has been presented to the Audit Committee that Mr. Cloud reviewed three issues of LP News for the \$1,500 he charged. None of the 44 emails that were forwarded to the Audit Committee showed the sending of drafts or the receiving of suggested edits for LP News.*
- *No evidence has been presented to the Audit Committee that the terms of the agreement were agreed upon at the commencement of work. We cannot foreclose the possibility that the terms stated in the detailed billing (created long after the payment) were made up after-the-fact to fit the data."*

The report goes on for some time. More facts will doubtless emerge. Some readers will feel things should have been done differently. We lack time machines. Perhaps the focus should be that we try to do better in the future.

LNC In Action

Some readers wonder why we do not spending more time covering LNC debate. The short form answer is exchanges like the following, of which we are only reporting a modest part, identified to us as appearing on the LNC-Discuss digest.

From Geoff Neale:

Starchild is the only voting LNC member that is not a subscriber to the Audit discussion group, because he has not agreed to keep the discussions confidential until we agree as a body which portions can be disclosed.

Starchild has been attempting to request copies of any legal advice from our legal counsel directly, but counsel has been politely directing Starchild to me.

Today I have informed counsel that I will provide him with a list of individuals authorized by me to communicate with counsel.

Of course Starchild does not think I have that authority, and my position is that I do, until the LNC formally tells me I do not, by establishing a rule within the Policy Manual.

Motions anyone?

Geoffrey Neale

leading to the response

Geoff,

Can you describe more particularly the basis on which you feel you have the authority to have all opinions from our counsel routed through yourself, and to unilaterally decide which persons are officially authorized to communicate with counsel? In the Policy Manual under Section 2.04.1 (General Counsel), it

states only that "The LNC shall appoint an attorney to serve as the Party's General Counsel."

As elected representatives of the party, it seems important to me that members of the LNC should be able to request and receive opinions from counsel when they have legal concerns pertaining to their responsibilities as representatives.

Love & Liberty,
((starchild)))

for which the answer was

From Neale:

Read the Bylaws. The Chair is the CEO.

I really need say no more.

However, does ANYONE agree with you?

I'm not interested in a repeat of the "let's have our conventions in a pasture" type of scenario, where you fail to produce ANYONE who agrees with you.

If you're not the lone voice, and there really are other LNC members that feel it's okay for our vendors to have eighteen bosses, then I'll be happy to respond to your questions.

Geoff

Starchild responded:

Geoff,

To my knowledge, no one has ever proposed having our conventions in a pasture. That strawman might go well in a pasture, however. :-)

LNC members being able to ask and receive counsel's advice is not the same thing as our vendors having 18 bosses, either. If multiple LNC members ask counsel the same question, the counsel can readily send the same opinion to all of them that he would send to a single person making the request.

Clearly as the chair you have a lot of power, but it shouldn't be a blank check. I don't know that the generic "CEO" authority covers being able to bar counsel from having communication with other members of the National Committee. If you believe it does, I would like to hear your more detailed rationale. Perhaps I am wrong and there's something I'm overlooking, but so far I haven't heard enough to make me think so.

Love & Liberty,
(((starchild)))

Mark Hinkle made the contribution:

Dear LNC,

Many years ago, the LPC had a paid staffer, and a much larger Executive Committee than it has now (15) and many of the those volunteers assumed they could give orders and tasks to the staffer.

It was an utter disaster.

It can be difficult to have one boss, but 18 is impossible to accomplish anything.

Not to mention the sanity of the employee being pulled 18 different directions.

The Chair is the CEO and every paid staff, contractor, or vender ultimately needs to report through the ranks to the CEO.

Virtually every for profit or non-profit works this way and there is a reason they do so.

It's the only organizational structure that consistently works well.

IMHO.....Mark Hinkle,

Starchild observed:

Mark,

Fifteen years ago I daresay the Libertarian Party of California (LPC), as an organization, was doing better than it is today. Haven't you often said so yourself?

Are you saying that at virtually every for-profit and non-profit organization, the legal counsel only communicates through the chair? I would be rather surprised if that is the case.

Being responsive to requests from 15 or 18 different people, or however many, is different from having 15 or 18 different "bosses". When you describe it in writing as "the sanity of the employee being pulled 18 different directions," it sounds completely unmanageable. But in reality it is not. Legislators fielding calls from and holding meetings with constituents, people working in retail and interacting with customers, professionals like doctors, architects, or erotic service providers interacting with clients, etc., all deal with people "pulling them in different directions" on a regular basis, sometimes many times a day, yet they manage.

But that's not the only approach open to us. An alternate model is the one typically used by government bodies such as Congress, state legislatures, and city councils. For those who like to stress that the LP is a political party, those entities have more connection to our mission than do corporations or non-profits. Such bodies will often hold hearings where staff are summoned before these committees to answer questions. The president, mayor, or executive branch "boss" is generally not present at those hearings and does not have a say in how they are conducted. Officials in these bodies also typically have staffers who work for them, so that the staff is not solely on the "executive" side.

Love & Liberty,
(((starchild)))

Rich Tomasso supported Starchild:

I think Starchild has a valid point. The language says the counsel is to the Party, not to the Chair. The Chair is the CEO but the LNC is the board of directors.

I've asked Mr Sinawski questions directly pertaining to things like ballot access and I'm certain other LNC members have as well.

We all have the ability to ask questions during our phone call to counsel during LNC meetings. Would that change?

The thread went into directing counsel to do something and having 18 bosses, was that the problem or was it an inference? We may not all be talking about the same thing. 18 bosses is a recipe for problems, but a subset of 18 people periodically asking "is X legal?" or "would Y get us into trouble?" shouldn't be a problem for an experienced attorney (IMO).

There may be things we should not be asking of Mr Sinawski, and if so, some clearer guidelines from the Chair or Counsel would be useful. For example, we may have other sources of expert advice that should be asked first, or there may be a project manager who is up to date on certain subjects and should be asked first. We are not his only client and he has to make a living, so we should not pester him with irrelevant or redundant questions.

The Chair or Counsel may have a preferred means and

manner of communication for legal questions. If any of us is violating some unwritten protocol, that would be useful to know. Ultimately, Mr Sinawski is free to simply say "sorry, I can't handle your question now" or "I think you can just ask the Chair for advice on this", which it seems he has done.

Neale answered Tomasso:

Rich, first off, Starchild requested a confidential report from counsel where he had another avenue - agree to keep the previously produced information confidential. I offered to forward Gary's response as long as Starchild agreed to keep it confidential. He has yet to accept this offer, which can only lead me to conclude that he is trying to obtain confidential information in order to disclose it.

Secondly, if you have indeed had formal communications with our legal counsel without the knowledge of anyone else on the LNC, I am concerned that this would be a continuation of a common practice throughout our history - getting information then failing to record and propagate it. Even if your query is related only to a single state in your region, non-confidential information could benefit future regional reps. Bob Johnston has been compiling BA information, and staff will be making this information more readily available in the future.?

At the bare minimum, I would appreciate it if LNC members would copy the Chair on legal requests to counsel. All staff is under my authority, yet I try as much as possible to copy Wes on requests I make to Robert. It's not just a good practice, it's respecting the fact that Wes is responsible for managing Robert.

Even if we tighten down and formalize our process to where requests need to be approved by the Chair, is it really a big deal to ask for permission? I handle plenty of approvals pretty expeditiously right now.

As to Gary being counsel to the LNC, not the Chair, this is a valid consideration, but I would make the point that the Chair is an officer, and can take legally binding action, whereas non-officers cannot. I can sign checks for the Parties funds, but it's not my money. I really don't see much of a difference.?

Of course, we can always go the other direction, and require a vote of the LNC before any one person can ask for counsel, ?if we're trying to become as egalitarian as possible.?

What annoys me the most, however, is that Gary has been compelled to write to Starchild to politely decline Starchild's requests since Starchild did not ask or inform me. Gary should not feel that he is in the middle of a battlefield. That is what I am fixing.

Geoffrey Neale

Starchild noted some issues with Neale's rationales:
Geoff,

I have no specific plans to disclose whatever advice we might get from counsel, but neither do I want to be forced to agree to open-ended secrecy as a prior condition of receiving such advice, not knowing what it may contain. So far I have not heard from Gary Sinawski himself that he thinks we should keep the opinion he sent you secret. If I were simply looking to disclose everything right away, I would have already made the Audit Committee report public, which I have not done.

> ...if you (Rich) have indeed had formal communications with our

legal counsel without the knowledge of anyone else on the LNC, I am concerned that this would be a continuation of a common practice throughout our history - getting information then failing to record and propagate it.

I couldn't agree more that getting information and then failing to record and propagate it is a huge problem in our party's leadership -- although an ordinary LNC member occasionally speaking to legal counsel to get advice about ballot access or some such matter is hardly the most notable instance of this that comes to mind. (Have you disclosed to the LNC all the information you yourself have received from counsel?)

> Bob Johnston has been compiling BA information, and staff will be making this information more readily available in the future.

Case in point! Reading between the lines, such information has apparently not been recorded and propagated up until now. Is there any reason this ballot access info can't be made more readily available now, and then updated as additional information is compiled?

Another important area of our operations besides ballot access are conventions. I have previously suggested that we make a practice of recording and propagating detailed information about the conventions we hold (see message below). Would you be willing to direct staff to collect and record this information on LP.org for posterity after each convention, and to let you know if they have any difficulties obtaining the information from convention organizers?

> At the bare minimum, I would appreciate it if LNC members would copy the Chair on legal requests to counsel.

If that's all you're asking, this seems much more reasonable to me than telling counsel whom he may and may not communicate with on the LNC. Although there are situations where it would not seem to be advisable, such as, hypothetically, if an LNC member wishes to confidentially ask counsel's advice about a legal situation or possible malfeasance concerning the chair?

> All staff is under my authority...

I don't believe our counsel counts as "staff". The LNC Policy Manual (Section 4.01.1) states for instance that the executive director's responsibilities include the following:

- > ? Recruit, train and assign all staff members
- > ? Regularly evaluate the performance of all staff; counsel them regarding improvement and how to better contribute to staff effectiveness.
- > ? Appoint, employ and terminate staff in consultation with the Chair.

Is it your contention that the executive director is responsible for recruiting, training, and assigning counsel? For evaluating counsel's performance? For appointing, employing, and terminating counsel in consultation with the chair? Has this been our practice? If not, then it would seem to me that ipso facto, counsel is not staff. But perhaps others would like to weigh in with their thoughts on this point.

Love & Liberty,

(((starchild)))

These conversations go on for quite some time, but the value added on reporting them is not always so clear to your Editor. And with that Happy Yule to All!

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Libertarian National Committee, Inc.

Statement of Operations - 2014 Budget

DRAFT # 4 - CONFIDENTIAL - NOT FOR PUBLIC DISSEMINATION

	TOTAL 2013		2014 BUDGET						
	Jan - Dec 10	Jan - Dec 12	YTD	(w-Ext at Watergate)					
Support and Revenue									
20-Membership Dues	532,493.82	458,287.82	442,144.58	505,800.00	(26,693.82)	47,512.18	95%	47,512.18	110%
21-Donations	302,257.67	319,089.01	170,940.08	294,900.00	(7,357.67)	(24,189.01)	98%	(24,189.01)	92%
22-Recurring Gifts	351,243.39	331,287.82	344,238.19	341,300.00	(9,943.39)	10,012.18	97%	10,012.18	103%
23-Board Solicitation Major Gifts	94,387.70	1,000.00	120.00	60,000.00	(34,387.70)	59,000.00	64%	59,000.00	6000%
24-Convention Revenue *	108,362.06	147,152.20	0.00	132,500.00	24,137.94	(14,652.20)	90%	(14,652.20)	90%
25-Project Program Revenue	5,000.00	(6,321.26)	270,508.72	135,300.00	130,300.00	141,621.26	2706%	141,621.26	-2140%
26-Brand / Promotional Materials	28,994.00	690.00	2,748.00	2,800.00	(26,194.00)	2,110.00	10%	2,110.00	406%
27-Ballot/Access Donations	32,052.03	231,877.45	39,368.65	32,100.00	47.97	(199,777.45)	100%	(199,777.45)	14%
28-Publications Materials Other	24,427.10	1,645.00	1,200.00	7,900.00	(16,527.10)	6,255.00	32%	6,255.00	480%
29-Other Revenue & Offsets	2,870.63	141.51	0.00	0.00	(2,870.63)	(141.51)	0%	(141.51)	0%
Total Support and Revenue	1,482,088.40	1,484,849.55	1,271,268.23	1,512,600.00	30,511.60	27,750.45	102%	27,750.45	102%
Cost of Support and Revenue									
32-Fundraising Costs	126,335.04	163,930.02	107,546.42	141,600.00	15,264.96	(22,330.02)	112%	(22,330.02)	86%
33-Membership Fundraising Costs	121,164.78	77,689.90	86,628.12	120,700.00	(464.78)	43,010.10	100%	43,010.10	155%
35-Convention	102,895.71	161,911.70	0.00	132,500.00	29,604.29	(29,411.70)	82%	(29,411.70)	82%
36-Ballot/Access Fundraising Exp	4,282.91	16,824.79	13,994.46	4,300.00	17.09	(12,524.79)	100%	(12,524.79)	26%
Total Cost of Support and Revenue	354,678.44	420,356.41	208,159.01	399,100.00	44,421.56	(21,256.41)	113%	(21,256.41)	95%
Net Support Available for Programs	1,127,409.96	1,064,493.14	1,063,109.22	1,113,500.00	(13,909.96)	49,006.86	100%	49,006.86	105%
Program Expense									
40-Administrative Costs	356,133.40	358,570.37	334,086.11	355,437.00	(696.40)	(3,133.37)	100%	(3,133.37)	99%
45-Compensation	375,988.31	405,745.94	442,690.10	518,700.00	142,711.69	112,954.06	138%	112,954.06	128%
50-Affiliate Support	0.00	4,816.10	6,484.73	6,500.00	6,500.00	1,683.90	0%	1,683.90	135%
55-Brand Development	51,878.72	2,747.85	2,890.04	2,900.00	(48,978.72)	152.15	6%	152.15	106%
58-Campus Outreach	60.00	0.00	0.00	0.00	(60.00)	0.00	0%	0.00	0%
60-Candidate, Campaign & Initiatives	25,048.11	4,463.63	0.00	0.00	(25,048.11)	(4,463.63)	0%	(4,463.63)	0%
70-Ballot/Access Petitioning Related Exp	128,352.00	382,460.58	19,514.54	123,400.00	(4,952.00)	(259,060.58)	96%	(259,060.58)	32%
75-Litigation	552.03	23,258.97	7,084.69	7,100.00	6,547.97	(16,158.97)	1286%	(16,158.97)	31%
80-Media	1,250.00	0.00	11.94	0.00	(1,250.00)	0.00	0%	0.00	0%
85-Member Communication and Materials	34,016.19	38,451.75	29,364.28	48,000.00	13,983.81	9,548.25	141%	9,548.25	125%
88-Outreach	8,392.15	4,315.49	7,867.43	10,000.00	1,607.85	5,684.51	119%	5,684.51	232%
90-Project Program Other	0.00	0.00	33,849.31	16,950.00	16,950.00	16,950.00	0%	16,950.00	0%
Total Program Expense	981,670.91	1,224,830.68	883,843.18	1,088,987.00	107,316.09	(135,843.68)	111%	(135,843.68)	89%
Net Operating Surplus (or Deficit)	145,739.05	(160,337.54)	179,266.04	24,513.00	(121,226.05)	184,850.54	17%	184,850.54	-15%
			Capital Expd.	\$5,000.00					

15 October 2013

Note: Our first Interim Report for the 2012 Audit was presented to the Libertarian National Committee, 14 July 2013. Because some LNC members were not present, and because this report may be made available to others, some material has been repeated here. Materials previously presented in executive session are not included here. This report is not confidential.

This report addresses the following major deficiencies:

- 1) Related Party Transactions with LNC Board Member Cloud, page 3.
- 2) LNC Funds Used to Pay Personal Expenses of the Executive Director, page 11.
- 3) Other Questionable Employee Benefit Practices, page 19.
- 4) Errors in Accounting Records, page 22.
- 5) Issues not yet addressed, page 23.
- 6) FEC Reports: (addressed in a separate confidential document).

EXECUTIVE SUMMARY OF INTERIM REPORT RECOMMENDATIONS

- Adhere to the Policy Manual requirement that written contracts between the LNC and all vendors be approved by the Chair and reviewed by General Counsel.
- Cease the practice of payment of commissions where a clear basis cannot be measured.
- Cease the practice of payments where a detailed invoice has not been provided.
- Cease the practice of staff editing of vendor invoices.
- Adhere to the Policy Manual requirement that the Chair or Treasurer must approve expense reimbursements to the Executive Director.
- Recover funds inappropriately paid to or on behalf of the Executive Director.
- Correct errors made in the accounting records.
- Direct staff to obtain documentation on advances made for moving expense.
- Direct staff to provide to the Audit Committee specified receipts or statements from 2013 to determine the nature of shipping expenses recorded as being Carla Howell's moving expenses.

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."

The Policy Manual 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."

The Policy Manual 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 RELATED PARTY TRANSACTIONS WITH LNC BOARD MEMBER CLOUD

The LNC Policy Manual requires that each contract or modifications thereto shall be in writing. It requires that the Chair approve any contract in excess of \$7,500. It requires that all contracts of more than one year in duration or for more than \$25,000 be reviewed and approved by General Counsel prior to signing by the Chair.

1.1 SUMMARY OF RELATED ISSUES IN OUR FIRST INTERIM REPORT At the LNC meeting on July 14, 2013, the 2012/2014 Audit Committee reported that a review of materials supplied by LP staff indicated the lack of documentation required of other vendors for payments of \$38,800 to board member Michael Cloud. We reported that the payments were made without a written contract; that Mr. Cloud's three invoices requesting payment lacked itemized details and were for round dollar amounts; and that the face of the invoices included a promise to provide details at a later date ("I will piece together an itemized and documented bill for all my fundraising and writing services during this time frame – with prices and royalties – before the end of this month."), which effectively made that a request for an advance payment in anticipation of documentation, or, in effect, a loan.

Because Generally Accepting Accounting Principles requires that we provide disclosure in the financial statements of transactions with related parties, we informed the LNC that the Audit Committee had requested the prior month (June 2013) from staff all information on the work product produced for \$38,800 so that an appropriate footnote disclosure could be completed. We reported that we did not yet have that requested information. At the meeting, Chairman Neale and staff both agreed that staff would provide the requested information within 7 days.

We promised to generate a supplemental report based on our findings.

Though we had not seen anything detailing the payment calculations, we had been told that Mr. Cloud's pay was commission-based. For fundraising services performed by Mr. Cloud, we asked staff for the gross amount of money raised (per solicitation, where applicable) and the net amount after direct costs. We asked for a listing of the donations generated, identical in nature to the demands that had been made by the LNC in the case of Big L Solutions, another related party vendor. For copywriting services performed by Mr. Cloud, we asked for copies of the work provided. In cases where the aim of the copywriting service was raising money, we requested the gross amount of money raised (per solicitation, where applicable) and the net amount after direct costs, identical in nature to what had been provided to us in the case of Big L Solutions.

1.2 SUMMARY OF RESULTS OF REQUESTS MADE FOLLOWING FIRST INTERIM REPORT

The Audit Committee received some of the information on various later dates from Robert Kraus up to and including August 3. The data provided by Mr. Kraus included a database of donations by fundraising appeal. Staff was not cooperative in fulfilling our requests in a timely manner, and it required assis-

tance from Chairman Neale to get additional information. However, as of this date (mid October 2013) some requested data has yet to be provided.

The Audit Committee noted that a July 29, 2013 email Mr. Kraus forwarded to us from Carla Howell made reference to an invoice Mr. Cloud turned in a week prior ("Everything else needed should be on the invoice Michael turned in a week Ago."), so we then requested and received a copy of that invoice. This new invoice from Mr. Cloud included a detailed breakdown of the items produced by him, along with the money raised. This invoice was the first time a formula purportedly used for calculating Mr. Cloud's compensation was provided to the committee, despite several prior requests.

We thought that we were close to wrapping up our work, but then an examination of the metadata of some of Mr. Cloud's work product that Mr. Kraus provided to us revealed that some work product for which Mr. Cloud had been paid was recorded as having been authored by then Executive Director Howell. We realized that we could not rely on Staff assertions about the documents alone to substantiate what Mr. Cloud wrote, so we requested that we be forwarded emails showing that Mr. Cloud had indeed sent the 37 documents for which he had received payment.

Staff claimed that this newly-provided detailed invoice was generated by Mr. Cloud in late December 2012, presumably to fulfill Mr. Cloud's commitment to providing details prior to his final payment. However, the facts do not support that apparently false or mistaken assertion. We analyzed the donations database Mr. Kraus generated in early August 2013 to calculate the estimated amount raised by each fundraising letter. We compared those figures to Mr. Cloud's detailed invoice, which also included the dollars raised by each fundraising letter (and upon which a commission had been paid).

The figures on the invoice were larger than the donations known as of December 2012, and those figures either matched or were slightly less than the totals from the database Mr. Kraus sent to us. However, Mr. Kraus' database of donations includes gifts all the way through August 1, 2013. Staff explained that Mr. Cloud's detailed invoice included estimates of future gifts. However, we did not find it credible that anyone can so accurately predict the performance of a fundraising appeal to the exact dollar amount many months in advance. The Audit Committee concluded that the more reasonable and probable explanation was that this new invoice had been created in July of 2013, not December of 2012, by LNC board member Cloud with the assistance of one or more staff members.

Mr. Kraus provided the Audit Committee with a database of the fundraising amounts for each letter for which Mr. Cloud had claimed authorship and payment. To the date of this report, however, we have not been provided a similar listing of the amounts raised per email solicitation attributed to Mr. Cloud. Upon inquiry, staff confirmed that the LP does not currently use any mechanism to track whether online donations came in via the "donate" link in an email message or via some other channel. Instead, to calculate commissions on email fundraising, Mr. Kraus had assumed that any non-membership online donations

from a 3-5 day period following each email solicitation were attributable to that email appeal. A commission should not be paid on an unknown, immeasurable, or unknowable, amount. (For example, if the day after an email solicitation was distributed, a donor contributed in response to an online Facebook post made by Arvin Vorha, that donation would have been attributed to the fundraising email, for which an inappropriate payment would have then been made, and then incorrectly recorded as an earned “commission.”)

1.3 INITIAL CONCLUSIONS AND RENEWED REQUESTS FOR CLARIFICATION

The Audit Committee concluded that staff could not reliably document the amount of money that Mr. Cloud’s efforts generated, and therefore we could not craft a financial statements disclosure footnote based on such figures. We needed some metric to disclose to our membership in order for them to be able to gauge how much work was done for the paid funds (formerly mischaracterized as “commissions”). We thought perhaps we could craft a disclosure footnote based on a cost per written word, assuming we could verify which words Mr. Cloud had indeed authored.

The Audit Committee then requested additional assistance from Chairman Neale, providing him a list of items we were waiting to receive from staff. We suggested that perhaps he could have Ms. Howell clarify matters, as we had been hearing mostly from Mr. Kraus (in part due to her vacation following the July LNC meeting).

On August 13, 2013, Chairman Neale forwarded to the Audit Committee some responses from Ms. Howell to questions asked by Chairman Neale regarding these matters. We noted with interest that Ms. Howell indicated that for some of the pieces she “was essentially taking dictation from him” for the contents of a mail piece, thus she might be shown as the author of a document, rather than Mr. Cloud.

We then repeated our requests for missing information and over the next few days discussed with Chairman Neale our mutual sense that we could not fully trust the information provided. We agreed we had, at best, an overly constrained ability to substantiate Mr. Cloud’s actual work product.

1.4 AUGUST TELECONFERENCE

August 19, 2013. Chairman Neale then called a teleconference to review the status of the Audit Committee’s work with the LNC’s Executive Committee. Mr. Cloud explained during the teleconference meeting that the reason why documents show Ms. Howell as the author is because Mr. Cloud did indeed dictate fundraising appeal wording to her over the phone and she would type it into a Word document that she created on her computer. As a result, it was claimed that there was no email traffic between them to memorialize or document that Mr. Cloud was the author – or that could be used to show that he was in any way responsible for the editing or coauthoring of these documents. Later, Ms. Howell reported that she would revise the documents independently and/or by reading them

aloud over the phone to Mr. Cloud, who would respond over the phone with editorial changes. Ms. Howell would then incorporate into the final document on her computer.

The Audit Committee challenged the reasonableness of the explanation that no supporting documentation existed for the editing of three issues of LP News, the authoring of 28 written fundraising appeals and six major party news releases, because Mr. Cloud did this predominantly by dictating original content and edits over a telephone and rarely, if ever, made use of an email account or computer to perform this work.

1.5 INITIAL RELATED DRAFT FINANCIAL DISCLOSURE STATEMENT FOOTNOTE

In the absence of documentation of the work performed, the Audit Committee proposed that the financial statement footnote include the following language:

- Over-the-phone review and editing services for three issues of LP News \$1,500
- Over-the-phone consulting services performed during May through December –dictating to the Executive Director approximately 23,500 words for fundraising appeals and news releases at about \$1.60 per word \$37,300

1.6 NEW DOCUMENTATION PROVIDED

On August 28, 2013, Chairman Neale directed Ms. Howell to forward to the audit committee the emails which were used to transmit Mr. Cloud’s finished work products to her. We and Chairman Neale agreed that September 5 was a reasonable deadline for this to be done.

Before we received those forwarded emails, on September 3, 2013, Chairman Neale forwarded from Ms. Howell a newly revised invoice from Mr. Cloud. We had not requested that this be done, and were only expecting forwarded emails.

1.7 ANALYSIS OF NEW VERSUS PRIOR DOCUMENTATION:

A comparison revealed a number of differences between this new invoice and the one previously provided to us.

- Some items formerly attributed to Mr. Cloud on the previous invoice had been deemed not to have been written by him at all, and were either removed from the new invoice or amended to award only partial commission from a collaborative writing, or co-authorship, with Ms. Howell.
- New items were listed that were not on the previous invoice.
- One item was re-classified into a different type of work, which then impacted the amount of the calculated fee.
- The new invoice included items Mr. Cloud had previously agreed to do for free before he became a paid vendor. These were related to promotion for the 2012 national convention, and

the new invoice suggests he was owed for these under the terms and payment rates of his post-convention vendor agreement, but suggests that Mr. Cloud simply chose not to bill for them and showed them as a “discount”. Additionally, the metadata of this new invoice indicated that it had not been solely prepared by Mr. Cloud, as it was also edited by Ms. Howell.

1.8 APPARENT EDITING BY STAFF OF A PREVIOUSLY SUBMITTED INVOICE

The Audit Committee thought it inappropriate for any staff member to edit an invoice provided by any vendor.

This un-requested new invoice with such substantial changes left us to conclude that staff had used no consistent basis for the payments to Mr. Cloud, either at the time the payments were issued or at the time these subsequent attempts were made, to justify said payments. Neither appropriate documentation, nor detailed invoices of work were provided at the time payments were made. And the determination of what work was performed and by which authors has been evolving over time and remains uncertain to date. At least some portions of the commissions paid were based on revenues that could not and cannot be accurately measured.

1.9 MORE DOCUMENTATION PROVIDED AND REVIEWED

September 5, 2013. Mr. Benedict provided to us copies of 44 emails between Ms. Howell and Mr. Cloud during this contract. We noted that some of the emails had been partially redacted with indicators left to specifically tell us that it was redacted. However, on another email which had not been noted as having been redacted, one portion of the header information was visibly altered, leaving us to question whether the other materials sent to us were unaltered, or whether they had also been partially reconstructed after the fact during the 8 days it took them to provide the emails.

At this point we constructed a chart of what seemed to be substantiated by these emails, presuming they were accurate representations, and what was left unsubstantiated. You will find as an Exhibit to this report titled A Recap and Analysis of Michael Cloud’s Summation Invoice for May through December 31.

1.10 CALCULATION OF COST PAID PER WORD (BOTH AUTHORED AND/OR CO-AUTHORED)

Leaving aside for the moment that the Audit Committee cannot substantiate the dollars raised by Mr. Cloud through email fundraising, it is claimed that \$216,106 was raised from all of his writing efforts based on our count of 22,488 words being written, which supports the payment to Michael of \$39,466.50 in gross fees and commissions (before discounting the amount to the \$38,800 billed).

However, of the total revenues generated, \$76,867 (over 1/3) was from work that cannot be substantiated in the emails staff provided to us. If you review the chart provided in the Exhibits

you’ll find that there are 11 items for which no documentation was provided to support work the LNC paid for. There is no substantiation for those 4,589 words written, no substantiation that three issues of LP News were edited and therefore no substantiation that \$13,252.85 in gross fees and commissions (before discounts) were earned by Mr. Cloud.

Though the Audit Committee’s task does not include making judgments about how much a vendor’s work is worth, we will pass along to the LNC some additional data for your independent evaluations. Of the roughly \$26,000 in fees the Audit Committee can substantiate, the Word document properties show around 3,900 minutes of time that these documents were open. We can’t be sure how much time Mr. Cloud spent working on these. (One can easily imagine that a person will often walk away from a document with it open on his computer while working on something else. One can also imagine that someone might spend some time not working directly on a document because there is thinking that goes on before writing commences. And there is work that is done after completing the document.) Using this amount of time as the best available reasonable gauge of the amount of work done, results in a rate of pay of approximately \$400 per hour.

1.11 REVISED FINANCIAL DISCLOSURE LANGUAGE BASED ON DOCUMENTATION PROVIDED IN SEPTEMBER

On September 8, we proposed new language for the financial statement footnote concerning this related party transaction:

- Services performed from May through December –editing and co-authoring with the Executive Director approximately 22,500 words for fundraising appeals and news releases at a cost of about \$1.72 per word. \$38,800

Crafting this footnote for disclosure was our goal in this matter, and that part of the task for the audited financial statements is now concluded. We have informed you of the internal process shortcomings that we found along the way.

1.12 INITIAL CONCLUSIONS:

- The Policy Manual was violated in that there was never a written contract between the LNC and Mr. Cloud that was approved by the Chair and reviewed by General Counsel.
- Ms. Howell approved the payment of \$38,800 to Mr. Cloud based on invoices that lacked supporting details explaining how the amount due was calculated.
- Staff assisted with constructing for the Audit Committee a detailed invoice and claimed that it was created around the time of the final payment in December 2012, while the information in the document could not have been known until July 2013. Chairman Neale agreed with our suspicion that staff constructed documents after the fact.
- Staff later provided the Audit Committee with a further revised detailed invoice that removes several works previously

attributed to Mr. Cloud and adds several, including some that Mr. Cloud had previously agreed to do for free. The metadata of this revised invoice shows that Mr. Cloud authored the invoice and Ms. Howell edited it. Staff altered an invoice prepared by a vendor, who also serves above them in the organization, namely as a board member.

- Commissions based upon \$119,618 raised by email fundraising are not supported and cannot be solely attributed to Mr. Cloud because there is no tracking mechanism to link website contributions with email solicitations.
- It took an inordinate amount of time for Staff to forward to the Audit Committee forty-four emails between Mr. Cloud and Ms. Howell intended to show that Mr. Cloud wrote the documents for which he received payment. The Audit Committee found evidence that the emails were altered.
- No evidence has been presented to the Audit Committee that Mr. Cloud reviewed three issues of LP News for the \$1,500 he charged. None of the 44 emails that were forwarded to the Audit Committee showed the sending of drafts or the receiving of suggested edits for LP News.
- No evidence has been presented to the Audit Committee that the terms of the agreement were agreed upon at the commencement of work. We cannot foreclose the possibility that the terms stated in the detailed billing (created long after the payment) were made up after-the-fact to fit the data.

2.0 LNC FUNDS USED TO PAY PERSONAL EXPENSES OF THE EXECUTIVE DIRECTOR

The LNC Policy Manual requires that all contracts or modifications thereto shall be in writing. It requires that the Chair approve any contract in excess of \$7,500. It requires that all contracts of more than one year in duration or for more than \$25,000 be reviewed and approved by General Counsel prior to signing by the Chair.

The Policy Manual requires that the Employment Policy and Compensation Committee complete a review of any contract for director-level employment no less than 10 days prior to the Chair signing it, and that the contract be circulated to the LNC on a strictly confidential basis after it has been reviewed by Counsel and the Employment Policy and Compensation Committee.

2.1 BACKGROUND

At its December 2011 meeting in Las Vegas, after the appropriate reviews by General Counsel and EPCC, the LNC exercising its plenary control and management of the Party's affairs, as stated in the Bylaws, voted to approve a contract to hire Carla Howell as the Executive Director.

The Executive Director employment agreement with Ms. Howell (which she primarily wrote) includes the following language:

“You will be reimbursed for expenses of moving from the Boston area to the Washington DC area and for commuting expenses (travel and lodging) between the two areas as necessary through February 28, 2012, not to exceed \$20,000 total overall expenses.”

“As ED, you will adhere to the bylaws and policies adopted by the LNC, you will hold the position of a fiduciary to the LNC, and you will be obligated to act in good faith and with the highest fidelity and prudence in the best interest of the LNC.”

“This letter sets forth the entire agreement regarding your employment.”

Because the Bylaws state that the Chair's authority to direct the business and affairs of the organization are 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, the Chair does not have the ability to modify the Executive Director's employment agreement without the consent of the LNC. The contract does give the Chair the express authority to extend employment from June 30, 2013 to December 31, 2013, but only under the existing terms of the agreement.

Between December 2011 and July 2013, the LNC did not approve any changes to Ms. Howell's employment agreement.

On September 8, 2013, we initiated inquiries on a separate matter that had come to our attention. The FEC report filed on April 20, 2012 indicated that the Party paid \$1,750 to Recai Yavalar on March 8, 2012 for a “rental deposit”. This is not a common expense one would see on the Party's FEC reports, and it seemed to coincide with the time that Ms. Howell moved to Washington, D.C. The transaction memo in the QuickBooks file indicated this was related to Ms. Howell's residence. Mr. Kraus confirmed to us that this was, indeed, a rental deposit on Ms. Howell's current residence in Arlington.

2.2 INAPPROPRIATE/UNAUTHORIZED PAYMENT OF RENTAL DEPOSITS

A payment of a rental deposit for one's permanent housing falls outside the bounds of the moving and commuting expenses the LNC had agreed (via her employment contract) to pay for her to move to the D.C. area. This is not an out-of-pocket expense reimbursement, as would be the case with temporary housing, airfare, or hiring movers. It is rather an asset on deposit with a third party, and it will presumably be refunded to Ms. Howell in the future when she leaves this residence. Since the deposit had been paid by the Party, the Audit Committee requested a copy of the current residential lease so that we could confirm that the lease itself was in her name, not under the Party's name, which would have required another disclosure in the audited financial statements.

When we later received a copy of the lease, we confirmed that the lease is in the name of Ms. Howell, not the LNC. This means no financial disclosure of a possible liability is needed, but it also means that the deposit will later be refunded to Ms.

Howell personally rather than to the LNC.

Mr. Kraus incorrectly recorded this disbursement as an employee benefit expense. Instead, it should have been recorded as an asset (a deposit with a third party) with the expectation that those funds would be returned to the LNC at a later date. This deposit will be refunded to Ms. Howell at the conclusion of her lease, or be retained for damages for which she, not the LNC, should be held personally liable.

We confirmed that there is no provision in the employee handbook offering any subsidies of employee housing costs as a standard benefit. If the intention had been to pay for Ms. Howell's housing as an employee benefit, the LNC would have been required to treat this as taxable income to Ms. Howell, reportable on her W-2 and subject to employee withholdings and employer payroll taxes.

Upon inquiry, Mr. Kraus confirmed to us that the amount had not been reported as income on her 2012 W-2 form, that no employee withholdings or employer taxes were remitted to the IRS on this amount, and that no other employees have received such a benefit.

2.3 MOVING AND COMMUTING EXPENSES ANALYSIS

Because of this contractual compliance issue, the Audit Committee made further inquiries about all moving and commuting expenses. We requested a schedule of all expenditures be made (along with the supporting documentation) for Ms. Howell's moving/commuting expenses incurred from her hiring to the present. Staff provided us with some of the additional documentation we requested for the remaining moving/commuting expenses, but not all of it. Examination of the materials that were provided and subsequent other inquiries from us revealed a number of additional reporting and recording concerns.

Mr. Kraus admitted that carte blanche had essentially been given to Ms. Howell, assuming that under the terms of her contract that she had the right to use \$20,000 as she saw fit toward hotel, travel, moving expenses, etc. without regard to the limitations set by the agreement that the LNC approved and Ms. Howell signed, and in apparent violation of the policy manual's requirement that:

"The Chair or Treasurer shall be required to approve (and evidence by signing or initialing) all expenses and expense account reimbursements more than \$200 made to the Executive Director or other officers prior to payment. No officer shall approve his or her own expenses."

Ms. Howell admits to having approved her own expenses and claimed no knowledge of any required approval process even though her agreement required her to "adhere to the bylaws and policies adopted by the LNC" and she was clearly not ignorant of the existence of the LNC's Policy Manual.

In addition to the lack of proper approvals, there were issues with a number of disbursements.

We include as an Exhibit at the end of this report a summary of all the moving related expenses for Carla Howell paid by the LNC that we were able to examine.

Of the \$18,800.87 in expenses paid to Ms. Howell or on her behalf, we found:

- Expenses allowed by her employment agreement and supported by receipts \$9,548.07
- Expenses allowed by her employment agreement, but not supported by \$2,125.24 receipts
- Expenses of a type allowed by her employment agreement and supported by \$2,423.16 receipts, but incurred after February, 2012
- Expenses of a type allowed by her employment agreement, but not supported \$415.60 by receipts and incurred after February, 2012
- Expenses not authorized by her employment agreement, though supported by \$3,550.00 receipts
- Expenses not authorized by her employment agreement and not supported by \$738.40 receipts

2.4 REVIEW OF DOCUMENTATION OF MOVING AND COMMUTING EXPENSES

For expenses that we categorized as supported by receipts, there were some deficiencies in the support. We qualified as "supported by receipts" instances where Ms. Howell provided us only her check carbons – not canceled checks or invoices. Such was the case for the \$550 Virtually Nowhere expense for packing and the \$1,080 for rent to Marie Allen Properties, LLC for the period March 12-31, 2012. Technically, we should have treated those as having not been supported, but we gave Ms. Howell the benefit of the doubt.

In the case of the \$3,201.54 in charges to Arpin Van Lines for Ms. Howell's moving expense to her current residence in Arlington, while we have not seen an invoice, we have seen a household goods bill of lading issued by the company supporting that the work was performed and a "paid" stamp indicating that it was for the amount in question. We qualified that transaction as having been supported by a receipt.

We did not qualify as having documentation those instances where Ms. Howell provided a copy of her credit card statement (though no receipts) indicating those listed transactions supporting reimbursement to her. There is no way to fully validate with a credit card statement alone that an expense is proper.

For travel and temporary lodging expenses incurred beyond the authorized period of December through February, Mr. Kraus admitted that paying those was an oversight on his part and that if he was paying attention to the dates he would have asked the Chair for authorization, not understanding perhaps that the Chair would need to get permission from the LNC to amend the

agreement. Chairman Neale agreed with us that the Chair does not have the ability to modify the agreement.

We have concerns about expenses that were paid without supporting receipts, even in cases where it appears that the category of expense was covered by the agreement. For example, at the end of March, Ms. Howell was reimbursed \$2,926.56 for her out-of-pocket expenses. Among the expenses that were not supported by receipts was a \$500.00 payment to Helping Hands for packing and moving, and payments amounting to \$390 to Bruce Simono (Ms. Howell's next door neighbor in Wayland, Massachusetts) for packing (\$350) and gasoline (\$40).

2.5 DETAILED ANALYSIS OF PARTY FUNDS APPARENTLY USED FOR PERSONAL EXPENSES

Of greater concern are the unequivocal instances where party funds were converted to personal use.

- During Ms. Howell's transition from Massachusetts to the D.C. area, before she moved into her current residence, she took up temporary residence at a facility owned by Marie Allen Properties, where the rent was \$1,800 per month. These temporary housing costs through February 2012 were to be paid by the LNC per her employment contract. In February, two payments were made to Marie Allen Properties, LLC, each for \$1,800.00. We were not provided a copy of the first check, but we were provided a copy of the second, which included the following email from Ms. Howell:

"Hi Robert, I got the check for temporary housing you sent – thanks. There is also a deposit due in the same amount. Due to the unexpected outlays I've had to make lately to get my house in sell-able condition, it would be helpful not to have to float this. Is this something that can be charged to the travel/lodging budget? If so, I could either apply it to the last month's rent, in which case it would become a regular lodging expense. Or I could reimburse LNC when it is return to me (minus any they deem me liable for, which I would be responsible for). Please advise. Thanks."

We were also provided with a copy of the lease, with a two-month term commencing February 11, 2012 and ending April 11, 2012. The lease specifically prohibits the tenant from using the security deposit to pay the cost of rent or any other monthly fee.

There are several problems with the payments made to Marie Allen Properties, including the \$1,080 reimbursed to Ms. Howell.

First, Ms. Howell's agreement allowed her to be reimbursed for expenses of moving from the Boston area to the Washington DC area and for commuting expenses (travel and lodging) between the two areas as necessary, but only through February 28, 2012. Ms. Howell states that the Chair approved extending the time beyond February after she told him that she was not going to be able to sell her Massachusetts home by the end of February. However, this rationale rings hollow to us because the Chair does not have the power to modify an agreement

made by the LNC. She can't rely on a claim that the chair has ostensible or apparent authority to do this because she received actual notice of this limit in his authority when she was provided with copies of the bylaws and policy manual, and she was present at the meeting when the LNC approved the contract terms that hired her.

Second, Mr. Kraus failed to record the security deposit in the books as an asset. As such, the financial statements do not show the amount is owed back to the Party. Instead, he recorded the security deposit expenditure as an employee benefit expense (commingled along with Ms. Howell's other travel expenses).

Finally, Ms. Howell received a refund of her deposit from her landlord (less any offsets for any damages there might have been) at the end of the lease, just a couple of months later, and she did not return the \$1,800 to the LNC. When we inquired of her about this, she stated that this was an oversight on her part and that she is willing to reimburse the party.

- We confirmed with Mr. Kraus that the aforementioned March 8, 2012 payment of \$1,750.00 to Recai Yavalar for a "rental deposit" is a rental deposit on Ms. Howell's current residence in Arlington. We have reviewed the lease agreement, which is in her name and for a one-year term commencing April 1, 2012. When we inquired further as to why the LNC paid this amount, Ms. Howell made the following statement:

"This was another situation that I had forgotten about, and it has taken a while for me to piece together what happened. This was a deposit for an apartment where I now live. At the time I had been looking desperately for an apartment in both DC and Virginia to get out of the temporary place I was in in DC, which was quite uncomfortable for me for a variety of reasons. I found the place I'm now in in Arlington, and was hoping to move in asap. I had hoped it would become a permanent residence and wouldn't have to move again, but was not sure about whether I would want to eventually land in VA or DC. I was told I would be able to break the lease if I could find a replacement tenant, which seemed to be easy to do given how competitive the housing market was at the time and how expensive any type of temporary living had become. Tourist season had begun in DC, and the Circle Hotel I'd stayed in previously, which I was told was about the cheapest that could be found near Foggy Bottom, had shot up to mid-\$200s/day. So I was anxious to secure this apartment. It was a far better deal than anything else I had found, and several others I tried to get had fallen through.

"Recai Yalavar appears to be some relative or associate of the landlord who showed me the apartment. I send regular rental checks to a management company. I did not remember his name.

"During this time I was both juggling sale of my house and the tenant whose apartment I was taking over. He was also trying to close a house sale. When I was first shown the apartment, he was expecting to close and move out within about a week. So I had hoped to move in early or mid March. But then he was having trouble with getting a mortgage, and it was getting repeatedly delayed. I recall that I was calling for status updates quite

regularly to try to find out when I could move in. This continued throughout most of the month.

“It was my plan, as far as I can remember, to count the \$1750 paid by the LNC for this apartment to pay for rent. As the month wore on, it became more clear that I was not going to be able to move in until near the end of the month of March.

“At that point I was flying back to Boston to close on my house and in the midst of packing and moving, while also juggling my job. That’s about the last time I remember thinking about this deposit.

“Again I am happy to repay whatever may be owed by me and again, I apologize for my neglect in keeping track of expenses. I assume this full amount of \$1750 should be refunded, as I do not recall paying, and have no record of paying, for any additional rent in March, even though I may have started to move possessions into the apartment in the last few days of the month. As such I think it is reasonable to assume that this money should be refunded in its entirety to the LNC, and I am happy to do that in whatever form is requested.”

Ms. Howell’s explanation fails to address the crux of the issue. A payment of a rental deposit for one’s housing falls outside the bounds of moving and commuting expenses. This is not an out-of-pocket expense reimbursement, as would be the case with temporary housing, airfare, or hiring movers. It is rather an asset on deposit with a third party. And similar to the \$1,800.00 deposit paid to Marie Allen Properties, it will also be refunded to Ms. Howell at the conclusion of her lease, or be retained for damages for which she, not the LNC, should be held personally liable.

Chairman Neale inquired with Mark Hinkle and Bill Redpath (who were Chair and Treasurer at the time) and neither of them reported through him to the Audit Committee any knowledge of this rental deposit having been paid by the Party.

2.6 ABSENCE OF RECEIPTS CONTRIBUTED TO THE PAYMENT OF PERSONAL EXPENSES

• We made an inquiry as to some missing receipts associated with a January reimbursement check made to Ms. Howell. Ms. Howell provided a copy of her credit card statement (though no receipts) indicating those listed transactions supporting the reimbursement. The credit card statement does not provide sufficient detail to determine whether an expense was legitimate. However, we were able to discern from a line on the credit card statement that makes reference to a \$173.40 flight between D.C. and Massachusetts, that the passenger was not Ms. Howell. Rather, it was for Ms. Howell’s friend (Leslie Fish). The LNC had reimbursed Ms. Howell for her friend’s travel expense. Had a receipt been provided and scrutinized before reimbursement was issued, this payment likely would never have occurred. This demonstrates that the word of the Executive Director (or even just seeing an amount on a credit card statement) is an insufficient substitute for receipt evidence. The LNC’s newly-passed policy requiring receipts for all expenses should reduce the chances of a similar situation in the future.

2.7 INITIAL RECOMMENDATIONS

To address the above we recommend the LNC require Ms. Howell to immediately reimburse the LNC \$9,252.80 for expenses that were:

- o not supported by receipts,
- o for travel and temporary lodging expenses incurred after February 2012, or
- o not authorized by her employment agreement.

Furthermore, we recommend that the books for 2012 record a Miscellaneous Receivable for \$9,252.80 and an offsetting reduction in Other Benefits, Goodwill and Training, and that our outside CPA firm be notified of this correction to finalize the 2012 audited financial statements.

3.0 OTHER QUESTIONABLE EMPLOYEE BENEFIT PRACTICES

To confirm that there were no other issues with inappropriate payments made on Ms. Howell’s behalf we requested that staff provide us with a schedule of other expenses incurred in 2012 and in 2013 under the category Other Benefits, Goodwill and Training.

As a result of this inquiry we uncovered two additional issues.

3.1 OTHER EMPLOYEE MOVING EXPENSES

• We received a schedule of an additional \$2,402.00 in employee benefits incurred during 2012. No supporting receipts were provided for the \$252.00 paid to Bertucci’s for staff food nor for the \$150.00 paid to employee Nick Dunbar for an election night party. The remaining \$2,000 was paid to incoming employee Eric Dixon for moving expense from Idaho. We were provided with a copy of an employment offer letter from Ms. Howell to Mr. Dixon stating that he “will be given \$2,000 with your first paycheck to cover expenses for relocating to the D.C. area with the understanding that you will not end your employment with us nor be terminated for cause before your first year of employment, in which case \$2,000 will be deducted from your final paycheck.”

There is no provision in the employee handbook authorizing paying for moving expenses as an employee benefit. It would be appropriate to address in the employee handbook under what circumstances, if any, we should offer to pay for moving expenses.

We were not provided with any other documentation concerning Mr. Dixon’s moving expenses, but we are able to determine that this amount was not paid through the payroll system and therefore will not appear on his W-2.

In order for reimbursed moving expenses to not be considered taxable wages to the employee, the employee must adequately

account for his moving expenses by giving his employer documentation of those expenses, such as a statement of expense, an account book, a diary, or a similar record in which he entered each expense at or near the time he had it. Documentation includes receipts, canceled checks, and bills. The accounting should be provided in a reasonable period of time, typically within 60 days, and the employer is required to report the amount of reimbursed expenses on the employee's W2 in Box 12. If the expenses are not accountable, they should be included in Box 1 and treated as ordinary wages.

Mr. Kraus might recall an email thread that included the current Audit Committee Chairman and then LNC Chairman Bill Redpath back in October 2009 concerning this very issue when Wes Benedict was hired as Executive Director. As a result, Mr. Benedict provided the appropriate documentation and the LNC properly reported qualified non-taxable moving expense for him.

Staff may want to remind themselves of the requirements by re-reading IRS Publication 521.

3.2 UNDOCUMENTED SHIPPING EXPENSES

- We noted that the general ledger records reveal additional expenses incurred for Ms. Howell's move in March and April of 2013 (more than one year after she moved). We requested documentation supporting those expenses and any others that are not yet listed as moving expenses for Carla. We also asked whether Carla authorized these payments. Mr. Kraus did not provide those records to us. He stated that it was a misclassification on his part based on a prior memorized credit card entry and that he will correct the classification of the transactions. Mr. Kraus is incorrect. We performed a global search with a recent QuickBooks file of the LNC's accounting records. There are no other examples where another transaction included in the memo field the phrase "CH Move Exp," such as was found in a \$504.75 April 2013 transaction with UPS; or "CH Moving Exp," such as was found in a \$451.55 March 2013 transaction with FedEx Kinko's. This memo language was not "memorized" from another transaction. It was manually entered. In addition, if Mr. Kraus had been using a "memorized transaction" in QuickBooks, we would have seen other examples where UPS and FedEx Kinko's transactions were being classified as an employee benefit expense. We found no instances of that, so we repeated our request, to which Mr. Kraus replied:

"Sorry, I can not find any related UPS/FedEx receipts except for one USP from OK to DC on something Geoff signed (the lease I assume). I do know that I personally sent some stuff back to DC from the Chicago Meeting that would account for some of this. I do not have those receipts. There were some other boxes that Carla sent as part of the Candidate archival and Training Project that was defunded. I've reclassified all of those related expenses previously to their natural accounts. We can ask Carla to see if she can dig up those receipts. They were charged (obviously) to our credit card. As we mentioned we are now keeping better records of those charges per the new policy and now are getting approval from Geoff or the Treasurer for

any credit card charges per the new policy. I honestly still do not know why I put "CH Moving" and simply attributed that to memorized transactions without looking further into it – my apologies for the error. Either way these were obviously misclassified and I thank the audit committee for pointing out the error so that it could be corrected. There are now no "moving expenses" for 2013."

We do not understand how Mr. Kraus could know now that these were misclassifications on his part if he has no receipts to support his conclusions and his notes at the time indicated otherwise. These transactions took place earlier this year, so the records are available. If staff were directed to inquire of UPS and FedEx about the details of these shipments, they would be able to provide us with the all the details of the shipments, including the shipments' starting points, destinations, weights, dimensions and who signed for the receipts. Having this information would enable the LNC to determine whether Ms. Howell was paid for additional moving expenses more than one year after she was scheduled to move.

3.3 RECOMMENDATIONS

We recommend that the LNC take the following actions:

- 1) Direct Mr. Kraus to obtain documentation from Mr. Dixon supporting that he incurred at least \$2,000 in moving expense. To the extent that receipts cannot be produced, the balance should be treated as taxable compensation on his W2 for 2013.
- 2) Direct Mr. Kraus to provide to the Audit Committee receipts or statements from UPS and FedEx supporting all March and April 2013 shipments. If complete records do not exist at LPHQ, Mr. Kraus should be required to contact UPS and FedEx to obtain those records.

4.0 ERRORS IN ACCOUNTING RECORDS

There are two errors in the accounting records that need to be addressed.

4.1 FUNDRAISING COST RECORDED AS AN ADMINISTRATIVE EXPENSE

- When Mr. Kraus recorded invoices from Mr. Cloud in the accounting records, during 2012, he arbitrarily classified 25% of the \$38,800 (or \$9,950) in bills from Mr. Cloud as administrative expense, rather than fundraising. The reconstructed detailed invoice sent in August 2013 shows that only \$5,500 is administrative (\$4,000 for eight news releases and \$1,500 for reviewing three issues of LP News) and the balance fundraising, so our financial statements understate fundraising costs and overstate administrative costs by the same magnitude. Had the detailed invoice been provided prior to the payment being issued, this classification could have been recorded properly the first time.

4.2 MISCLASSIFICATION OF EXPENSES

At the end of March 2012, Ms. Howell was reimbursed

\$2,926.56 for her out-of-pocket expenses. Of that amount, Mr. Kraus improperly classified \$406.56 as travel not associated with her commuting, even though the subject heading of the expense reimbursement request submitted by Ms. Howell states “Expenses against budget for travel/lodging/move – CH paid to be reimbursed” and the details support such a classification (e.g. taxi for temp apt search).

RECOMMENDATION

We recommend that the LNC take the following action:

Direct that Mr. Kraus work with the Audit Committee to correct the books for 2012 and that our outside CPA firm be notified of this correction to finalize the 2012 audited financial statements.

5.0 ISSUES NOT YET ADDRESSED

After we have had an opportunity to resolve the above issues, we expect our next, if not final, report for 2012 will focus on the assisting of staff with implementing the recommendations made by the auditor (and adopted by the LNC) and developing recommendations for Policies for the two remaining un-addressed issues identified by our independent auditing firm:

- 1) Document Retention
- 2) Whistleblower Protection.

Respectfully submitted:

Aaron Starr, Chairman

Joseph G. Buchman, PhD

Brett H. Pojunis

Letter from Starchild
December 6, 2013 at 12:11 am

As I would expect is normal for an organization with a number of full time employees, a large portion of the matters we deal with on an ongoing basis in our operations concern staff in one manner or another.

There are concerns that we shouldn't discuss certain personnel matters publicly lest we expose ourselves to legal liability, and while given the out-of-control legal system in this society I believe these concerns sadly have merit in certain specific situations, it is clearly unrealistic and detrimental to the interests of our party for everything that relates to staff to be kept secret. I have attempted to get advice from our general counsel and input from other LNC members about which specific types of information regarding staff need to be kept secret, but no one who knows or claims to know has volunteered this information to me.

In fact, LP chair Geoff Neale specifically instructed our in-house lawyer Gary Sinawski to ignore my questions. I believe

this was exceeding his authority as chair, but even if I wanted to compel Gary to give me advice when he chooses not to do so, I don't know of any way to do this short of a vote by the entire Libertarian National Committee.

In the meantime, Audit Committee chair Aaron Starr sent the following additional material to members of the LNC a couple days ago. Neither he nor anyone else including counsel has told us this needs to be kept secret that I am aware of, and the bulk of the Audit Committee report has been leaked already anyway along with numerous comments posted here by others, so I am going to go ahead and post this in the interests of disclosure and accountability ahead of our December 7-8 meeting in Dallas this weekend.

My fear is that some LNC members will seek to have the entire conversation about the Audit Committee report in secret without disclosing anything. If someone convinced me we face a great legal risk by having a public conversation on the matter I would be more willing to entertain that course of action, but my sense is that the secrecy is as much about avoiding embarrassment and maintaining insider exclusivity as anything else — and these do not strike me as good reasons not to let our members know what's going on or have an opportunity to weigh in on the matter.

On Nov 30, 2013, at 3:31 PM, Aaron Starr wrote:

Members of the LNC and LNC General Counsel Gary Sinawski, In his role as counsel for the LNC, I am including on this email LNC General Counsel Gary Sinawski so that he is aware of these issues and can offer his legal advice.

Since the time the Audit Committee submitted its Second Interim Report to the LNC, another detail has come to our attention that we did not notice in time to include in our second report. Before the 2012 audit even began, Mr. Cloud disclosed to the LNC some information which seems to contradict his invoices, as well as the statements later made by Ms. Howell during the audit.

For background, the LNC's Policy Manual discusses Conflict of Interest in Section 2.01.2. It reads as follows:

Each LNC Member and each Party officer or employee shall disclose to the LNC situations in which such person's own economic or other interests, or duties to others, might conflict with the interests of the Party in the discharge of his/her duties. Any such disclosure shall be made at the earliest opportune moment, prior to the discharge of such duties and clearly set forth the details of the conflict of interest, in a written disclosure statement provided to the Secretary. No LNC Member, Party officer or employee shall: (a) transact business with the Party unless the transaction is fair and equitable to the Party; or (b) use information gained in the discharge of Party duties to the disadvantage of the Party.

The Secretary shall maintain a register of all declared potential

conflicts of interest by LNC members. This register will be presented and distributed to all LNC members at each regular LNC meeting.

As a result of this policy, during the July 15, 2012 LNC meeting, time was allowed for each person to provide the Secretary with the appropriate disclosures. Below is a transcript of a portion of that meeting, and the matching audio is attached for your own verification of its accuracy.

LNC Secretary Ruth Bennett: Mr. Cloud?

Michael Cloud: I am the President of the Center for Small Government. We don't have any financial relationship yet to the Libertarian Party, but I anticipate either lending or renting mailing lists so that we can cross mail – so that we can harvest some of our names into the Libertarian Party. That's number one.

Number two is, although I am not on the board of the Advocates for Self Government, I've had a very, very close relationship, long time, with the people running the organization. And I believe that Advocates has a relationship with the LP with the World's Smallest Political Quiz. I don't know if there's any monies involved. I needed to put that on the table.

And third is, I expect to be vendor to the Libertarian Party for fundraising. And in order to alleviate (sic) any potential conflicts of interest, I'm charging under market rates for the fundraising I will do – under what the normal pay is for those, so that the question simply doesn't arise whether or not you're getting value for your dollar.

Geoff Neale: Mr. Lark, you have a question?

Dr. James Lark: Yes, please excuse my incredible ignorance. In terms of providing below market rates, is there any possible FEC question? You are a member of this board. I would assume that there probably isn't a problem, but if you are in some sort of vendor capacity, is there a problem if you are providing services to the LNC at below market rates? You may want to just look into that and see if there is some sort of implication by virtue of federal law.

Michael Cloud: Well then, let me rephrase is that I am providing services at WalMart rates, rather than Neiman Marcus, for our fundraising.

What we want to bring to your attention is that Mr. Cloud's disclosure in July of 2012 indicates that at that point in time he "expect[ed] to be" a vendor. Expecting to be something is a hope for a future situation that is not yet true. Mr. Cloud did not say he was at that time a vendor who had already reached an agreement with the party on payment terms and was already performing services under that agreement. One could reasonably infer from his statement that he had not yet performed paid work.

However, Mr. Cloud's invoices make clear that he charged for work done prior to July 15th, 2012 at which time even he apparently did not yet consider himself to be a vendor.

His first two (summary, not detailed) invoices amounting to \$33,500 were not presented and paid until October 2012, and those invoices state that they are for work performed from May

15, 2012 through October 31, 2012. No details of the work performed were provided on those first two invoices. The latest long-after-the-fact reconstructed invoice created to support his work shows that he billed \$7,429.70 in gross fees and commissions (before discounting the amount to the \$7,311.85 billed) for work performed from May 18 – July 15, 2012.

Contrast Mr. Cloud's July 15, 2012 statement with Ms. Howell's written statement to Chairman Neale on August 13, 2013 during the audit:

In December of 2011, then-Chair Mark Hinkle and LP Convention Chair Ruth Bennett asked Michael Cloud to do the marketing for the 2012 national convention, despite the fact there was no budget allocated for marketing it. Michael obliged and also refused to be paid for this work. He worked voluntarily for LP HQ from December through early May of 2012. Most of his help involved writing fundraising letters/registration appeals for the convention with the aim to make it profitable. He also reviewed the fund-raising letter I wrote in Jan-Feb and came up with the teaser for the envelope, "The Ron Paul Effect." He also reviewed and offered edits for a few other pieces we wrote such as blogs and LP News. I didn't keep track of the specific pieces he helped with on a volunteer basis during this time.

Shortly after the convention, we agreed to his doing paid work for headquarters and to terms of payment. He did this work for the period between mid-May and end of 2012. The terms were: Fundraising letters: 15% of gross after subtracting \$1000, plus \$1000 flat fee.

Press releases: \$500

LP News issues – review and edits: \$500 per issue

Email fundraisers: 10% of gross online donations (not including membership/renewals).

Ms. Howell's statement above asserts that he only worked as a volunteer through early May of 2012, but shortly after the convention in May, "we agreed to his doing paid work for headquarters and to terms of payment. He did this work for the period between mid-May and end of 2012."

Ms. Howell indicated that Mr. Cloud already was a vendor, with agreed upon terms, already performing the contracted work well before July 15, 2012.

These conflicting statements cannot both be true. It isn't likely that in July 2012 Mr. Cloud didn't know he was already a vendor, had already agreed to terms, and had already performed work for which he was owed. Did Mr. Cloud misinform the LNC about his status at that time, or else was he not yet a vendor, the undocumented vendor agreement came after July 15, 2012, and he then back-billed for work performed before he became a vendor?

Because there was no written contract for this work, the Audit Committee is unable to determine which of these conflicting timelines is accurate. We are unable to determine when Mr. Cloud ceased doing volunteer work and when he became a vendor to whom payment was due. If his vendor agreement came about after July 15, 2012, then some of the items on the reconstructed detailed invoices would not have been owed to him, as

they predated the vendor relationship.

At this time we would like to remind you of something we did note in our Second Interim report. On page 7 of that document we noted that the most-recently-reconstructed invoice that was produced on September 2, 2013: “included items Mr. Cloud had previously agreed to do for free before he became a paid vendor. These were related to promotion for the 2012 national convention, and the new invoice suggests he was owed for these under the terms and payment rates of his post-convention vendor agreement, but suggests that Mr. Cloud simply chose not to bill for them.”

On that invoice, Mr. Cloud backdated his payment terms to include \$8,250 worth of work (eleven pieces at \$750 each) he had previously agreed to do for free between February 14, 2012 and April 30, 2012, even though Ms. Howell’s statement was that “he worked voluntarily for LP HQ from December through early May of 2012,” so it is not unrealistic to question whether he again chose to bill for work between May 15 and July 15, even if it pre-dated his agreement to become a vendor. Based on Mr. Cloud’s statement indicating that he was not yet a vendor as of July 15, 2012, we are amending section 1.10 of our Second Interim report to include the bracketed, underlined language below.

1.10 CALCULATION OF COST PAID PER WORD (BOTH AUTHORED AND/OR CO-AUTHORED)

Leaving aside for the moment that the Audit Committee cannot substantiate the dollars raised by Mr. Cloud through email fundraising, it is claimed that \$216,106 was raised from all of his writing efforts based on our count of 22,488 words being written, which supports the payment to Michael of \$39,466.50 in gross fees and commissions (before discounting the amount to the \$38,800 billed). [If one were to characterize the time prior to July 15, 2012 as volunteer work, then \$172,005 was raised (before printing, mailing and other fundraising costs) based on 18,884 words written for \$32,036.80 in gross fees and commissions billed by Mr. Cloud. The actual bills and payments amounted to \$38,800.]

However, of the total revenues generated, \$76,867 (over 1/3) was from work that cannot be substantiated in the emails staff provided to us. If you review the chart provided in the Exhibits you’ll find that there are 11 items for which no documentation was provided to support work the LNC paid for. There is no substantiation for those 4,589 words written, no substantiation that three issues of LP News were edited and therefore no substantiation that \$13,252.85 in gross fees and commissions (before discounts) were earned by Mr. Cloud. [If one were to characterize the time prior to July 15, 2012 as volunteer work, then \$45,096 (over ¼) of the revenues cannot be substantiated. There are 6 items for which no documentation was provided. There is no substantiation for 2,434 words written, no substantiation for two issues of LP News edited and therefore no substantiation for \$8,522.65 in gross fees and commissions earned out of the \$32,036.80 in fees claimed as earned by Mr. Cloud subsequent to July 15. The actual bills and payments amounted to \$38,800.]

Though the Audit Committee’s task does not include making judgments about how much a vendor’s work is worth, we will pass along to the LNC some additional data for your independent evaluations. Of the roughly \$26,000 in fees the Audit Committee can substantiate, the Word document properties show around 3,900 minutes of time that these documents were open. We can’t be sure how much time Mr. Cloud spent working on these. (One can easily imagine that a person will often walk away from a document with it open on his computer while working on something else. One can also imagine that someone might spend some time not working directly on a document because there is thinking that goes on before writing commences. And there is work that is done after completing the document.) Using this amount of time as the best available reasonable gauge of the amount of work done, results in a rate of pay of approximately \$400 per hour. [If one were to characterize the time prior to July 15, 2012 as volunteer work, then of the roughly \$23,500 in fees that we can substantiate, the Word document properties show around 2,800 minutes of time. As such, the recalculated rate of pay exceeds \$500 per hour.]

The Audit Committee requests that the National Committee answer the following questions at its upcoming December 7-8 meeting in Dallas:

· Given that Mr. Cloud indicated that he was not yet a vendor as of July 15, 2012, as of what date does the Libertarian National Committee believe that Mr. Cloud ceased being a volunteer and became a vendor?

According to the Bureau of Labor Statistics (<http://www.bls.gov/ooh/media-and-communication/writers-and-authors.htm>), the median annual wage of writers and authors was \$55,420 in May 2010 (or \$26.64 per hour). Freelance copywriters tend to earn more to cover office costs, self-employment taxes and other costs. According to the 2012 Writer’s Market, a freelance advertising copywriter charges between \$35 and \$150 per hour. Depending on when work as a vendor began, the Audit Committee can document Mr. Cloud working anywhere from 46 to 65 hours. Given the policy that no National Committee member shall “transact business with the Party unless the transaction is fair and equitable to the Party” and Mr. Cloud’s commitment to “providing services at WalMart rates, rather than Neiman Marcus” rates for his copywriting skills, what portion of the \$38,800 paid to Mr. Cloud does the Libertarian National Committee consider to be a fair and equitable amount of compensation?

Respectfully submitted,
Aaron Starr, Chairman
Libertarian Party Audit Committee

Starchild then writes:

It appears we can no longer post photos and audio and video links in the IPR comments under this new format (I presume this has been discussed and explained elsewhere, but since I haven’t mentioned it previously, let me just say for the record that I vastly preferred the former look and feel of IPR before the

change a couple months ago!). So you'll have to take my word for it, for the time being, that the audio file of the July 15, 2012 LNC meeting that Aaron Starr attached to the message above contained a recording of a conversation which I believe to be accurately reflected by the transcript above, and which accords with my memory of what was said at that meeting.

Since we will be discussing the Audit Committee report this weekend, I'm interested in hearing from party members how you feel this situation should be handled. Especially if you are someone who does not post often, or has not posted previously on this topic.

A Declaration of the Immediate Causes which Induce and Justify the Secession of the State of Mississippi from the Federal Union.

In the momentous step which our State has taken of dissolving its connection with the government of which we so long formed a part, it is but just that we should declare the prominent reasons which have induced our course. Our position is thoroughly identified with the institution of slavery-- the greatest material interest of the world. Its labor supplies the product which constitutes by far the largest and most important portions of commerce of the earth. These products are peculiar to the climate verging on the tropical regions, and by an imperious law of nature, none but the black race can bear exposure to the tropical sun. These products have become necessities of the world, and a blow at slavery is a blow at commerce and civilization. That blow has been long aimed at the institution, and was at the point of reaching its consummation. There was no choice left us but submission to the mandates of abolition, or a dissolution of the Union, whose principles had been subverted to work out our ruin.

That we do not overstate the dangers to our institution, a reference to a few facts will sufficiently prove.

The hostility to this institution commenced before the adoption of the [Constitution](#), and was manifested in the well-known [Ordinance of 1787](#), in regard to the Northwestern Territory. The feeling increased, until, in 1819-20, it deprived the South of more than half the vast territory acquired from France. The same hostility dismembered Texas and seized upon all the territory acquired from Mexico.

It has grown until it denies the right of property in slaves, and refuses protection to that right on the high seas, in the Territories, and wherever the government of the United States had jurisdiction.

It refuses the admission of new slave States into the Union, and seeks to extinguish it by confining it within its present limits, denying the power of expansion.

It tramples the original equality of the South under foot.

It has nullified the [Fugitive Slave Law](#) in almost every free State in the Union, and has utterly broken the compact which our fathers pledged their faith to maintain.

It advocates negro equality, socially and politically, and promotes insurrection and incendiarism in our midst.

It has enlisted its press, its pulpit and its schools against us, until the whole popular mind of the North is excited and inflamed with prejudice.

It has made combinations and formed associations to carry out its schemes of emancipation in the States and wherever else slavery exists.

It seeks not to elevate or to support the slave, but to destroy his present condition without providing a better.

It has invaded a State, and invested with the honors of martyrdom the wretch whose purpose was to apply flames to our dwellings, and the weapons of destruction to our lives. It has broken every compact into which it has entered for our security.

It has given indubitable evidence of its design to ruin our agriculture, to prostrate our industrial pursuits and to destroy our social system.

It knows no relenting or hesitation in its purposes; it stops not in its march of aggression, and leaves us no room to hope for cessation or for pause.

It has recently obtained control of the Government, by the prosecution of its unhallowed schemes, and destroyed the last expectation of living together in friendship and brotherhood.

Utter subjugation awaits us in the Union, if we should consent longer to remain in it. It is not a matter of choice, but of necessity. We must either submit to degradation, and to the loss of property worth four billions of money, or we must secede from the Union framed by our fathers, to secure this as well as every other species of property. For far less cause than this, our fathers separated from the Crown of England.

Our decision is made. We follow their footsteps. We embrace the alternative of separation; and for the reasons here stated, we resolve to maintain our rights with the full consciousness of the justice of our course, and the undoubting belief of our ability to maintain it.

The Texas Ordinance of Secession
(February 2, 1861)
A declaration of the causes
which impel the State of Texas to secede
from the Federal Union

The government of the United States, by certain joint resolutions, bearing date the 1st day of March, in the year A. D. 1845, proposed to the Republic of Texas, then a free, sovereign and independent nation, the annexation of the latter to the former, as one of the co-equal States thereof,

The people of Texas, by deputies in convention assembled, on the fourth day of July of the same year, assented to and accept-

ed said proposals and formed a constitution for the proposed State, upon which on the 29th day of December in the same year, said State was formally admitted into the Confederated Union.

Texas abandoned her separate national existence and consented to become one of the Confederated States to promote her welfare, insure domestic tranquillity and secure more substantially the blessings of peace and liberty to her people. She was received into the confederacy with her own constitution under the guarantee of the federal constitution and the compact of annexation, that she should enjoy these blessings. She was received as a commonwealth holding, maintaining and protecting the institution known as negro slavery--the servitude of the African to the white race within her limits--a relation that had existed from the first settlement of her wilderness by the white race, and which her people intended should exist in all future time. Her institutions and geographical position established the strongest ties between her and other slave-holding States of the confederacy. Those ties have been strengthened by association. But what has been the course of the government of the United States, and of the people and authorities of the non-slave-holding States, since our connection with them?

The controlling majority of the Federal Government, under various pretenses and disguises, has so administered the same as to exclude the citizens of the Southern States, unless under odious and unconstitutional restrictions, from all the immense territory owned in common by all the States on the Pacific Ocean, for the avowed purpose of acquiring sufficient power in the common government to use it as a means of destroying the institutions of Texas and her sister slave-holding States.

By the disloyalty of the Northern States and their citizens and the imbecility of the Federal Government, infamous combinations of incendiaries and outlaws have been permitted in those States and the common territory of Kansas to trample upon the federal laws, to war upon the lives and property of Southern citizens in that territory, and finally, by violence and mob law to usurp the possession of the same as exclusively the property of the Northern States.

The Federal Government, while but partially under the control of these our unnatural and sectional enemies, has for years almost entirely failed to protect the lives and property of the people of Texas against the Indian savages on our border, and more recently against the murderous forays of banditti from the neighboring territory of Mexico; and when our State government has expended large amounts for such purpose, the Federal Government has refused reimbursement therefor, thus rendering our condition more insecure and harassing than it was during the existence of the Republic of Texas.

These and other wrongs we have patiently borne in the vain hope that a returning sense of justice and humanity would induce a different course of administration.

When we advert to the course of individual non-slave-holding States, and that a majority of their citizens, our grievances assume far greater magnitude.

The States of Maine, Vermont, New Hampshire, Connecticut, Rhode Island, Massachusetts, New York, Pennsylvania, Ohio, Wisconsin, Michigan and Iowa, by solemn legislative enactments, have deliberately, directly or indirectly violated the 3rd clause of the 2nd section of the 4th article of the federal constitution, and laws passed in pursuance thereof; thereby annulling a material provision of the compact, designed by its framers to perpetuate amity between the members of the confederacy and to secure the rights of the slave-holding States in their domestic institutions--a provision founded in justice and wisdom, and without the enforcement of which the compact fails to accomplish the object of its creation. Some of those States have imposed high fines and degrading penalties upon any of their citizens or officers who may carry out in good faith that provision of the compact, or the federal laws enacted in accordance therewith.

In all the non-slave-holding States, in violation of that good faith and comity which should exist between entirely distinct nations, the people have formed themselves into a great sectional party, now strong enough in numbers to control the affairs of each of those States, based upon the unnatural feeling of hostility to these Southern States and their beneficent and patriarchal system of African slavery, proclaiming the debasing doctrine of the equality of all men, irrespective of race or color--a doctrine at war with nature, in opposition to the experience of mankind, and in violation of the plainest revelations of the Divine Law. They demand the abolition of negro slavery throughout the confederacy, the recognition of political equality between the white and the negro races, and avow their determination to press on their crusade against us, so long as a negro slave remains in these States.

For years past this abolition organization has been actively sowing the seeds of discord through the Union, and has rendered the federal congress the arena for spreading firebrands and hatred between the slave-holding and non-slave-holding States. By consolidating their strength, they have placed the slave-holding States in a hopeless minority in the federal congress, and rendered representation of no avail in protecting Southern rights against their exactions and encroachments.

They have proclaimed, and at the ballot box sustained, the revolutionary doctrine that there is a "higher law" than the constitution and laws of our Federal Union, and virtually that they will disregard their oaths and trample upon our rights.

They have for years past encouraged and sustained lawless organizations to steal our slaves and prevent their recapture, and have repeatedly murdered Southern citizens while lawfully seeking their rendition.

They have invaded Southern soil and murdered unoffending citizens, and through the press their leading men and a fanatical pulpit have bestowed praise upon the actors and assassins in these crimes, while the governors of several of their States have refused to deliver parties implicated and indicted for participation in such offences, upon the legal demands of the States aggrieved.

They have, through the mails and hired emissaries, sent seditious pamphlets and papers among us to stir up servile insurrection and bring blood and carnage to our firesides.

They have sent hired emissaries among us to burn our towns and distribute arms and poison to our slaves for the same purpose.

They have impoverished the slave-holding States by unequal and partial legislation, thereby enriching themselves by draining our substance.

They have refused to vote appropriations for protecting Texas against ruthless savages, for the sole reason that she is a slave-holding State.

And, finally, by the combined sectional vote of the seventeen non-slave-holding States, they have elected as president and vice-president of the whole confederacy two men whose chief claims to such high positions are their approval of these long continued wrongs, and their pledges to continue them to the final consummation of these schemes for the ruin of the slave-holding States.

In view of these and many other facts, it is meet that our own views should be distinctly proclaimed.

We hold as undeniable truths that the governments of the various States, and of the confederacy itself, were established exclusively by the white race, for themselves and their posterity; that the African race had no agency in their establishment; that they were rightfully held and regarded as an inferior and dependent race, and in that condition only could their existence in this country be rendered beneficial or tolerable.

That in this free government all white men are and of right ought to be entitled to equal civil and political rights; that the servitude of the African race, as existing in these States, is mutually beneficial to both bond and free, and is abundantly authorized and justified by the experience of mankind, and the revealed will of the Almighty Creator, as recognized by all Christian nations; while the destruction of the existing relations between the two races, as advocated by our sectional enemies, would bring inevitable calamities upon both and desolation upon the fifteen slave-holding States. By the secession of six of the slave-holding States, and the certainty that others will speedily do likewise, Texas has no alternative but to remain in an isolated connection with the North, or unite her destinies with the South.

For these and other reasons, solemnly asserting that the federal constitution has been violated and virtually abrogated by the several States named, seeing that the federal government is now passing under the control of our enemies to be diverted from the exalted objects of its creation to those of oppression and wrong, and realizing that our own State can no longer look for protection, but to God and her own sons - We the delegates of the people of Texas, in Convention assembled, have passed an ordinance dissolving all political connection with the government of the United States of America and the people thereof

and confidently appeal to the intelligence and patriotism of the freeman of Texas to ratify the same at the ballot box, on the 23rd day of the present month.

Adopted in Convention on the 2nd day of Feby, in the year of our Lord one thousand eight hundred and sixty-one and of the independence of Texas the twenty-fifth.

