

# **Management Review Report of the Cattlemen's Beef Promotion and Research Board June 20 – 24, 2016**

## **OBJECTIVE OF THE REVIEW**

The objective of the review was to ensure that the Cattlemen's Beef Promotion and Research Board (CBB) was operating within the provisions of the Beef Promotion, Research, and Consumer Information Act of 1985, (7 U.S.C. 2901-2918, hereinafter called "the Act;" the Beef Promotion and Research Order, (7 CFR Part 1260), hereinafter called "the Order;" AMS Guidelines for Oversight of Commodity Research and Promotion Programs (June 2012), hereinafter called the "Guidelines;" CBB by-laws, policies, and procedures; and all applicable Federal laws, regulations and policies. Under the Guidelines, the Agricultural Marketing Service (AMS) is required to conduct management reviews of all commodity boards every 3 years.

## **BACKGROUND**

AMS has oversight responsibilities of CBB, which is one of the 22 research and promotion checkoff programs. At the time of the review, CBB consisted of 99 members, including domestic beef, dairy, and veal producers, as well as importers of beef and beef products. Each member is appointed by the Secretary of Agriculture from industry nominations

The CBB has as part of its responsibility, the certification of Qualified State Beef Councils (QSBCs, of which there are 43 at present) and the implementation of the provisions of the Federal Order (7 CFR Part 1260, July 18, 1986).

CBB employs a staff. The Chief Executive Officer reports to CBB members and is responsible for the management of CBB's staff and all checkoff-funded programs. CBB reports the results of projects and activities to stakeholders throughout the year.

CBB's funding is provided by assessments as stipulated in the Act and Order. CBB oversees the collection of \$1-per-head assessment on all cattle sold in the U.S. and \$1-per-head equivalent on imported cattle, beef and beef products. In States with a QSBC, the QSBC may retain up to 50 cents of each \$1 collected but must remit at least 50 cents to CBB. CBB collects the entire \$1 in States that do not have a QSBC and from importers.

## **SCOPE OF THE REVIEW**

The review was conducted by the AMS' Livestock, Poultry, and Seed Program (LPS) and AMS Compliance and Analysis Program (C&A) staff. The review covered the period of July 1, 2013, through May 31, 2016.

**Specific areas included:**

Accounting/Financial Management	Cash Receipts and Receivables
Disbursements and Payables	Payroll
Postage & Shipping	Insurance & Fidelity Bonds
Contract Compliance	Promotional Materials
Recordkeeping & Information Collection	Credit Card Expenditures
Cash and Investments	Travel & Expense Reimbursements
Fixed Assets	Human Resources & Personnel
By-laws	Policies and Procedures

AMS conducted the review by traveling to CBB's offices from June 20-24, 2016, meeting with CBB senior management, and examining support for various CBB activities (as described in Exhibit 1 below). We appreciate the courtesy extended to us by CBB in providing timely documentation and thoroughly answering our questions.

In addition to conducting the management review, we also performed work in accordance with the "Standard Operating Procedure - Supplemental Cattlemen's Beef Board Management Review Procedures" to address the outstanding Office of the Inspector General's (OIG) audit recommendation during our visit.

**SUMMARY OF FINDING**

During our management review we noted one finding and recommendation, which will require follow-up action by CBB; and one external auditor finding (i.e. audit exception) from the fiscal year 2014 external audit that was previously resolved in fiscal year 2015 by CBB. This section identifies the finding and recommendation which needs to be addressed by CBB.

**Finding:** We selected a sample of three Final Reports of Expenditures (FROEs) for CBB contractors and subcontractors for review from the Authorization Request Management System (ARMS). Each FROE requires that the Chief Financial Officer (CFO) and Project Manager for the respective contractor or subcontractor certify the final budget and expenditures for each project. On two of the three reports reviewed we noted that edits had been made by the CBB Chief Accountant. On one certification, edits were made to capture the correct budget amount and the related change in the unspent budget. On the other certification, an edit was made to reflect CBB's payment for a related bill received by CBB after the contractor signed the certification. The edited certifications were not sent to the contractor or subcontractor for their subsequent review and re-certifications (i.e. approval).

**Recommendation:** We discussed with the CBB CFO that any FROE certification for the respective contractor or subcontractor that requires a budget or final expenditure amount to be edited will be resubmitted to the contractor or subcontractor for correction and re-certification.

## CONCLUSION

During the period of our management review, we determined that the internal controls for each of the areas within the scope, except as noted in the finding and recommendation above, were functioning properly at CBB. We noted that CBB's internal controls surrounding cash disbursements; cash receipts; investments and bank reconciliations; fixed assets; promotional materials; contracts; contractor allocations; payroll processing; and travel and expense reimbursements were adequately documented. CBB also had appropriate Director and Officer's insurance coverage and fidelity bond coverage in place. Additionally, we noted that the CBB's bylaws are in accordance with current Guidelines and policies.

We discussed our informal recommendations with CBB senior management during the exit conference. The formal recommendation was discussed with and accepted by the CBB staff. The new procedure to address this finding has been implemented by the CBB effective as of the close of this management review. The final approved FROE will be maintained in ARMS as a record.

We request that the CBB concur with the finding and conclusion of this report, in writing, within 30 days of receipt of this report. Again, we appreciate the consideration and timely responses from all CBB staff during the review.

## EXHIBIT I

As part of the financial audit of areas described in our "scope," AMS selected a sample of 50 total disbursements for fiscal years 2014, 2015, and 2016 for review. Fifty disbursements, totaling \$3,891,330.54, were reviewed for these years for supporting documentation, proper account coding, proper approvals, amounts of disbursements and appropriateness per the disbursements policy. We also reviewed and tested cost allocations for selected invoices. Additionally, we performed a walkthrough of a monthly cost allocation for the National Cattlemen's Beef Association, CBB's largest contractor.

The policies for travel reimbursement for both CBB staff and directors were reviewed. The voucher submissions and corresponding reimbursements were made in a timely manner. The reimbursable expenses were also reviewed against the travel policy and matched to the appropriate expense report receipts and management approvals. A total of 15 expense reports for CBB members totaling \$11,764.03 and a total of 15 expense reports for CBB staff totaling \$14,048.91 were reviewed for the fiscal years 2014, 2015, and 2016 time frame.

The detailed monthly credit card statements for each CBB staff member who held credit cards were reviewed for fiscal years 2014, 2015, and 2016. All CBB credit card charges reviewed were reasonable and in accordance with CBB policy. Additionally, we did not note any late fee, over-the-limit or interest charges on any of the CBB credit statements reviewed.

AMS also reviewed the monthly bank reconciliations and the accompanying CBB investments reports for a total of 10 months for the fiscal years in scope (2014, 2015 and 2016). Each of the monthly bank and investments reconciliations were reviewed and approved by the CBB CFO and all reconciling items were cleared in a timely manner. AMS also reviewed and reconciled the petty

cash account. Petty cash is kept in a locked drawer by the Operations Manager, who maintains the keys. The petty cash is reconciled by the Chief Accountant and reviewed and approved by the CFO.

Automated daily electronic backups of CBB's financial data are performed. Access to the CBB financial data is password protected and accessible to only the CBB employees based upon their assigned job duties.

We reviewed the payroll procedures as documented in the CBB Accounting Manual. Two people are involved in adding new employees to the payroll. CBB uses a third party payroll processor and pays employees via direct deposit. As a compensating control, the Chief Accountant prepares payroll data entry forms, which are approved by the CFO before the Chief Accountant enters payroll. The Chief Financial Officer then reviews the payroll register. We reviewed the approvals of bonuses and raises for each CBB employee, and the addition of a new CBB employee for fiscal year 2015 and noted no exceptions.

CBB established ARMS to manage checkoff- funded project approvals. ARMS is a database system which is used to track all documents requiring approval for expenditures on funded projects. Controls include project numbers, dates of approvals, project descriptions, scope of work, and project completion time frames. This system was established to account for all pre-approval actions and Authorization Request changes that take place during the course of a project. In ARMS, contractors submit documents for approval, first by CBB and then by AMS. All submissions are tied to an approved Authorization Request (AR), which is a detailed project description and a contract.

ARMS houses CBB's approved ARs, AR extension requests, approvals, contracts, and final reports on expenditures. Information was initially entered in ARMS in fiscal year 2012. In fiscal year 2013, all materials with the exception of partnerships were processed through ARMS. ARMS access requires user passwords and is limited based on an individual's need to know. Contractors may only view their own submissions, and only certain contractor representatives are able to view contracts in the system. When contractors submit bills to CBB, the ARMS number that correlates to any expenditures requiring preapproval is required to be included. As an additional control, the CBB accounting staff reviews a sample of these ARMS numbers from the invoices to ensure that the description matches the item and that the proper coding and approvals are in place.

A total of 21 contracts were reviewed from July 31, 2013, to May 31, 2016. All were consistent with the Act, Order, and Guidelines that were in place when the contracts were signed. All contracts were signed by all parties and approved by AMS prior to CBB disbursing the first payment. AMS also reviewed 7 randomly sampled branded partnerships. All of the branded partnerships reviewed were properly communicated to and previously approved by AMS. In addition, all of the materials were tied to an approved AR.

AMS reviewed five randomly selected QSBC marketing plans for each fiscal year (July 31, 2013, through May 31, 2016). AMS reviewed all of the promotions for these marketing plans. AMS also determined that each of the objectives, strategies and tactics were consistent with the Act and Order.

Promotional materials and research documents for the period covered were randomly sampled and reviewed by AMS. AMS reviewed 26 randomly sampled promotional and research documents for each year (July 31, 2013, FY 2014, FY 2015, and May 31, 2016) for a total of 104 documents that

were reviewed in ARMS. All of the randomly sampled documents retrieved from ARMS or the internet (when possible) were compared to AMS's approved documents. All of the promotional and research materials reviewed were properly communicated to and previously approved by AMS. In addition, all of the materials were tied to an approved AR.

We found CBB to keep stakeholders advised of rules and regulations, policies, guidelines, and other information. CBB pushes emails to stakeholders and drives them to Web links. In addition, CBB created two toolboxes, one for CBB members and one for QSBCs. When something is posted on a Web site or in a toolbox, an email is sent to the appropriate audience, and the recipient has the option of reading the information in the email or on the Web site or toolbox.

CBB provided C&A with its personnel policies, bylaws, and accounting manual. C&A determined that the CBB internal controls policies were properly approved by AMS personnel. The AMS Investment Policy was also clearly referenced and detailed within the internal controls for investments of the checkoff funds.

We found CBB to have adequate procedures for the handling its cash disbursements and receipts. We also found CBB's contracts, investments, collateralization of investments, and CBB's bylaws to be in accordance with current Guidelines and policies. In addition, we noted that CBB has current fidelity bond coverage of \$500,000 per incident, and all employees who handle cash, checks, and credit card transactions are bonded. In addition, CBB Directors' and Officers' have liability coverage of \$3 million.

We found CBB's fixed assets identifiable for recordkeeping. AMS reviewed the Fixed Asset listing and compared this to the calculation of depreciation expense for fiscal year 2015. AMS noted that fixed assets are also reviewed in the annual audit of CBB by their external financial auditor.

We reviewed the CBB's Code of Ethics forms including both a conflict of interest disclosure and confidentiality agreement completed and signed by all current CBB employees and directors for fiscal year 2016 and noted no exceptions. The current CBB personnel policy manual includes information for reporting suspicious activities, code of ethics, conflicts of interest, grievances, sexual harassment, equal employment opportunity, and civil rights policy as well as the whistleblower protection policy. The manual also provides information for CBB employees and directors to report suspected violations to either the CBB CEO or the USDA Office of Inspector General.