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July 1, 2011

The Honorable Tom Vilsack
Secretary
U.S. Department of Agriculture
1400 Independence Ave., SW
Washington, D.C. 20250

Dear Secretary Vilsack,

The United States Cattlemen's Association believes that the public controversy surrounding the national, mandatory Beef Checkoff Program has escalated to a point where the U.S. Department of Agriculture (USDA) must intervene.

This unfortunate situation was born with the discovery that the National Cattlemen's Beef Association (NCBA) misappropriated checkoff funds and the bias shown to NCBA by the Federation. It is reported that 82 out of 86 Federation board members are NCBA members.

Current circumstances could not be less fortunate. The beef checkoff's majority contractor and its affiliates have engaged in a public campaign attacking the Cattlemen's Beef Board (CBB) staff and leadership, demanding their resignations or removal. NCBA's actions have resulted in the resignation of the CBB CEO, a critical blow to the Beef Checkoff Program.

We want to bring to your attention that earlier this month, CBB members received an update with regard to the checkoff contractor compliance review of NCBA for the period of 2008 - 2010. The update shows that the total of misappropriated checkoff funds by NCBA has grown to more than \$305,000 for the review period.

Additionally, minutes of CBB Executive Committee meetings from the spring and summer of 2010 show that the NCBA CEO committed checkoff funds under contract to Gaylord Properties without the approval of the CBB Executive Committee. In fact, the meeting minutes show that the NCBA CEO excluded the CBB from negotiations with Gaylord Properties, and in fact also reflect that the NCBA CEO admitted a lack of communication with the CBB about the Gaylord Properties negotiations. The penalty alone for breaking the Gaylord Properties contract was \$200,000. These are serious ethics issues for checkoff investors and we believe they warrant a full investigation by USDA.

With the recent audit findings of expanded financial irregularities, we now find ourselves in a situation where NCBA has apparently decided that its only defense is offense and we believe it is essential that USDA step in and address these issues in what is a government program before

producers lose all confidence in the checkoff. Incredibly, CBB leadership and staff are being personally and professionally attacked for essentially doing their jobs; for providing oversight of the beef checkoff under the direction and guidance of USDA. The beef checkoff's majority contractor's engagement in these actions is, in our opinion, a thinly veiled attempt to redirect public discourse away from unethical management tactics by NCBA staff and leadership, breaches in the firewall, and the meaningful roles and responsibilities policy changes proposed by the CBB's Roles & Responsibilities Committee.

The powers and duties of the CBB are set forth in the Act and Order, which essentially establish the CBB as an agent of the federal government. The CBB is responsible for administering the provisions of the Order, to make rules and regulations to put into effect the terms and provisions of the Order, to initiate, investigate and report to the Secretary complaints of violation of the Order, and to review and approve appropriate budgets of the Operating Committee and of the CBB itself. The Act and the Order delegates broad powers to the Board to accomplish its purposes. The Order also vests the Board with the power to "adopt such rules for the conduct of its business as it may deem advisable." USDA and CBB oversight responsibilities include the Federation of State beef Councils. USDA's relationship with the CBB is a partnership in most ways, with USDA personnel present at all key meetings; USDA personnel are kept well informed of CBB decisions and events; and USDA, as the federal agency ultimately responsible for beef checkoff oversight, holds veto power over any and all decisions or actions taken by the CBB. We are puzzled then, at USDA's lack of intervention and guidance in the current controversy. This ruthless campaign has diverted precious checkoff resources and comes at a time when the annual checkoff budget has been reduced by 20 percent in five years.

You will recall that the National Cattlemen's Beef Association (NCBA) met with USDA officials in late 2009 to present a proposed governance restructure plan. During NCBA's convention in San Antonio later that year, NCBA's governance task force leadership presented the proposed plan, including a presentation during the CBB update session. At the time, NCBA leadership said the plan was compliant with the Act and Order and asserted that USDA had approved the plan. Subsequently, in March 2010, six cattle industry groups, including USCA, wrote a joint letter to you opposing NCBA's proposed new governance structure. Despite, NCBA leadership's assurances to the contrary, on May 17, 2010 you responded to NCBA concerning its proposed new governance structure, expressing your serious concerns with NCBA's approach.

In March 2010, the CBB's Roles and Responsibilities Committee was charged with reviewing the CBB's policies and procedures to ensure that the CBB is fulfilling its responsibilities under the Act and Order and USDA's anticipated publishing later that year of its Guidelines for AMS Oversight of Commodity Checkoff Programs. USDA personnel were kept abreast of the Roles and Responsibilities Committee's actions.

On June 22, 2010, the CBB Executive Committee passed a resolution calling for a complete separation between the Federation and any policy organization, correlating with the efforts of five industry groups to lesson the control and influence of NCBA over the Federation by establishing a greater separation of the two groups. The Roles and Responsibilities Committee's report and recommendations were approved by the CBB Executive Committee and were submitted to the full Board for its consideration in July 2010, but were not acted upon at that

time. At its July 31, 2010 summer meeting, the Federation of State Beef Councils voted to maintain its partnership with NCBA.

In November 2010, USDA published its Guidelines for AMS Oversight of Commodity Checkoff Programs. In March 2011, the CBB Executive Committee responded to USDA's new Guidelines by further revising the Roles and Responsibilities recommendations to reflect the parameters defined in USDA's guidelines and submitted those recommended changes to the full CBB. CBB legal counsel issued an opinion three weeks ago indicating that all of the proposed policy changes are compliant with the Act and Order. These recommendations will be considered by the CBB during its 2011 summer meeting in Kissimmee, Florida during the first week of August. The consideration of the recommendations has now been clouded by NCBA's actions.

The precursor to NCBA, the National Cattlemen's Association (NCA) was largely responsible for the existence of the beef checkoff. NCBA has been responsible for many, many years in contracting with the checkoff and administering programs. Unfortunately, when financial irregularities were discovered, NCBA was not willing to apologize to investors, admit any wrong-doing or embrace needed structure changes that would strengthen firewalls, preventing further abuse of the checkoff funds.

The last two years have shown increased transparency with the checkoff. Cattle producers appreciate these efforts, but at the same time it has also added to a growing concern about how efficiently their money is being used, along with an increased concern that firewalls have been, and are being, breached. Approximately 40 cents of every beef checkoff dollar collected and submitted to the CBB goes towards contractor implementation costs. Seventy percent (70%) of NCBA's administrative and overhead costs are paid with checkoff dollars. This has inflated and empowered a policy organization that at times has lobbied against the majority of cattle producers. There can be no firewall when this infusion of money has increased NCBA's presence, visibility and influence as a policy organization and allowed it to employ more joint staff that are often involved in lobbying activities. We all understand, and there can be no doubt, that this is a breach of the Act and Order.

The beef checkoff is at a crossroads. Presently, financial irregularities appear to be ongoing, with no apology from the offenders or punishment administered to rectify the situation. Yet, the staff and volunteer leadership providing oversight of the checkoff, and who are responsible for exposing these abuses of the program, are now being unjustly incriminated and it is apparent that this approach will not be stopped without USDA's intervention.

Respectfully,



Jon Wooster, President, U.S. Cattlemen's Association

cc: Ed Avalos, Under Secretary, USDA
Rayne Pegg, Administrator, USDA/AMS

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