



FEDERAL ELECTION COMMISSION
WASHINGTON, D C 20463

September 27, 2004

MEMORANDUM

TO: ROBERT W. BIERSACK
PRESS OFFICER
PRESS OFFICE

FROM: JOSEPH F. STOLTZ *JFS*
ASSISTANT STAFF DIRECTOR
AUDIT DIVISION

SUBJECT: PUBLIC ISSUANCE OF THE FINAL AUDIT REPORT ON
THE DEMOCRATIC EXECUTIVE COMMITTEE OF FLORIDA

Attached please find a copy of the final audit report and related documents on the Democratic Executive Committee of Florida, which was approved by the Commission on September 9, 2004.

Informational copies of the report have been received by all parties involved and the report may be released to the public on September 27, 2004.

Attachment as stated

cc: Office of General Counsel
Office of Public Disclosure
Reports Analysis Division
FEC Library
Web Manager



Report of the Audit Division on the Democratic Executive Committee of Florida

January 1, 2001 – December 31, 2002

Why the Audit Was Done

Federal law permits the Commission to conduct audits and field investigations of any political committee that is required to file reports under the Federal Election Campaign Act (the Act). The Commission generally conducts such audits when a committee appears not to have met the threshold requirements for substantial compliance with the Act.¹ The audit determines whether the committee complied with the limitations, prohibitions and disclosure requirements of the Act.

Future Action

The Commission may initiate an enforcement action, at a later time, with respect to any of the matters discussed in this report.

About the Committee (p. 2)

The Democratic Executive Committee of Florida is a state party committee headquartered in Tallahassee, Florida. For more information, see chart on the Committee Organization, p. 2.

Financial Activity (p. 2)

- **Receipts**
 - From Contributors \$ 872,724
 - Transfers From Affiliates 999,060
 - Transfers From Non-Federal Account for Shared Activity 6,346,671
 - Other Receipts 310,764
 - **Total Receipts** \$ 8,529,219
- **Disbursements**
 - Operating Disbursements \$ 9,025,368
 - Other Disbursements 76
 - **Total Disbursements** \$ 9,025,444

Findings and Recommendations (p. 3)

- Misstatement of Financial Activity (Finding 1)
- Disclosure of Refunds of Allocable Expenses (Finding 2)
- Recordkeeping for Disbursements (Finding 3)

¹ 2 U.S.C. §438(b).

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Part I

Background

Authority for Audit

This report is based on an audit of the Democratic Executive Committee of Florida (DECF), undertaken by the Audit Division of the Federal Election Commission (the Commission) in accordance with the Federal Election Campaign Act of 1971, as amended (the Act). The Audit Division conducted the audit pursuant to 2 U.S.C. §438(b), which permits the Commission to conduct audits and field investigations of any political committee that is required to file a report under 2 U.S.C. §434. Prior to conducting any audit under this subsection, the Commission must perform an internal review of reports filed by selected committees to determine if the reports filed by a particular committee meet the threshold requirements for substantial compliance with the Act. 2 U.S.C. §438(b).

Scope of Audit

Following Commission approved procedures, the Audit staff evaluated various factors and as a result, this audit examined:

1. The receipt of excessive contributions and loans.
2. The receipt of contributions from prohibited sources.
3. The disclosure of contributions received.
4. The disclosure of disbursements, debts and obligations.
5. The disclosure of expenses allocated between federal and non-federal accounts.
6. The consistency between reported figures and bank records.
7. The completeness of records.
8. Other committee operations necessary to the review.

Limitations

Although the DECF's records for contributions from individuals technically met the recordkeeping requirements of Section 432(c) of the Act, the Audit staff's testing of contributions received was limited. For calendar year 2001, copies of contribution checks, response devices, or other documentation generated by the contributor which contained the contributor's name, date and amount of contribution, or occupation and name of employer were not available. Therefore, no verification of the reported information was possible beyond the information recorded by the DECF in its electronic files. The DECF made several attempts to locate the missing records.

Changes to the Law

On March 27, 2002, President Bush signed into law the Bipartisan Campaign Reform Act of 2002 (BCRA). The BCRA contains many substantial and technical changes to the federal campaign finance law. Most of the changes became effective November 6, 2002. Except for the period November 7, 2002, through December 31, 2002, the period covered by this audit pre-dates these changes. Therefore, the statutory and regulatory requirements cited in this report are primarily those that were in effect prior to November 7, 2002.

Part II

Overview of Committee

Committee Organization

Important Dates	Democratic Executive Committee of Florida
• Date of Registration	April, 19, 1972
• Audit Coverage	January 1, 2001 – December 31, 2002
Headquarters	Tallahassee, FL
Bank Information	
• Bank Depositories	2
• Bank Accounts	5 Federal and 5 Non-federal Accounts
Treasurer	
• Treasurer When Audit Was Conducted	Earl Scales
• Treasurers During Period Covered by Audit	George Platt (until 7/5/2001) Earl Scales
Management Information	
• Attended FEC Campaign Finance Seminar	Yes (February 2004)
• Used Commonly Available Campaign Management Software Package	Yes
• Who Handled Accounting and Recordkeeping Tasks	Paid Staff

Overview of Financial Activity (Audited Amounts)

Cash on hand @ January 1, 2001	\$ 467,895
○ From Contributors	872,724
○ Transfers From Affiliates	999,060
○ Transfers From Non-federal for Shared Activity	6,346,671
○ Other Receipts	310,764
Total Receipts	\$ 8,529,219
○ Operating Disbursements	\$ 9,025,368
○ Other Disbursements	76
Total Disbursements	\$ 9,025,444
Cash on hand @ December 31, 2002	(\$ 28,330)

Part III

Summaries

Findings and Recommendations

Finding 1. Misstatement of Financial Activity

A comparison of the DECF's reported financial activity to its bank records revealed a misstatement of beginning cash on hand, receipts, and disbursements in calendar year 2001 and a misstatement of receipts and disbursements in 2002. The DECF complied with the Audit staff's recommendation by filing amended reports to correct the misstatement of financial activity. (For more detail, see p. 4)

Finding 2. Disclosure of Refunds of Allocable Expenses

The DECF did not disclose correctly refunds from vendors in the amount of \$34,962. The DECF complied with the Audit staff's recommendation by filing amended reports to correct the disclosure errors. (For more detail, see p. 7)

Finding 3. Recordkeeping for Disbursements

The DECF failed to maintain adequate records for disbursements for 18 refunds of contributions to individuals in the amount of \$34,500 as well as for two disbursements to media vendors in the amount of \$183,500. The DECF complied with the Audit staff's recommendation by providing the missing records. (For more detail, see p. 8)

Part IV

Findings and Recommendations

Finding 1. Misstatement of Financial Activity

Summary

A comparison of the DECF's reported financial activity to its bank records revealed a misstatement of beginning cash on hand, receipts, and disbursements in calendar year 2001 and a misstatement of receipts and disbursements in 2002. The DECF complied with the Audit staff's recommendation by filing amended reports to correct the misstatement of financial activity.

Legal Standard

Contents of Reports. Each report must disclose:

- The amount of cash on hand at the beginning and end of the reporting period;
- The total amount of receipts for the reporting period and for the calendar year; and
- The total amount of disbursements for the reporting period and for the calendar year.
- Certain transactions that require itemization on Schedule A or Schedule B.
2 U.S.C. §434(b)(1), (2), (3), (4), and (5).

Facts and Analysis

The Audit staff reconciled the DECF's reported activity to its bank records and determined there was a misstatement of beginning cash on hand, receipts, and disbursements in calendar year 2001 and a misstatement of receipts and disbursements in 2002. The following charts detail the discrepancies between the DECF's reported activity and its bank records.

2001 Activity			
	Reported	Bank Records	Discrepancy
Beginning Cash Balance	\$182,169	\$467,895	\$285,726 Understated
Receipts	\$2,770,265	\$3,137,571	\$367,306 Understated
Disbursements	\$2,627,238	\$3,222,358	\$595,120 Understated
Ending Cash Balance	\$325,196	\$383,109	\$57,913 Understated

Explanation of Discrepancies

Beginning Cash Balance – 2001

The understatement of beginning cash on hand in the amount of \$285,726 likely occurred because the DECF did not report the salary and payroll related expenses for some of the

employees that were paid from the federal payroll account in the prior cycle in the same manner as described below.

Receipts – 2001

The understatement of receipts was the result of the following:

- | | |
|--|-------------|
| • Transfers Not Reported – The DECF did not report on Schedules H3 (Transfers from the Non-federal Account) transfers from the non-federal account for salary and payroll related expenses for employees whose duties were considered to be 100% non-federal by the DECF. These expenses were paid from the allocation account. | + \$347,610 |
| • In-Kind Contributions Not Reported – The DECF did not report in-kind contributions from individuals on Schedules A (Itemized Receipts). | + 3,000 |
| • Unexplained difference | + 16,696 |

Understatement of Receipts	<u>\$367,306</u>
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Disbursements – 2001

The understatement of disbursements was the net result of the following:

- | | |
|---|-------------|
| • Payroll Not Reported – The DECF did not report salary and payroll related expenses for employees whose duties they considered to be 100% non-federal. Even though the DECF incorrectly treated these expenses as 100% non-federal for reporting purposes, the expenses were correctly paid on an allocated basis using the administrative expense ratio. The expenses should have been reported on Schedules H4. | + \$503,279 |
| • Non-Payroll Disbursements Not Reported | + 92,189 |
| • In-Kind Contributions Not Reported – The DECF did not report in-kind contributions on Schedules B (Itemized Disbursements). | + 3,000 |
| • Reported Disbursements Not Traced to Bank – There were no checks or debits in the DECF’s bank accounts to support reported contribution refunds and a contribution to a candidate. | - 3,447 |
| • Unexplained difference | + 99 |

Net Understatement of Disbursements	<u>\$595,120</u>
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2002 Activity			
	Reported	Bank Records	Discrepancy
Opening Cash Balance	\$325,196	\$383,109	\$57,913 Understated
Receipts	\$5,138,812	\$5,391,648	\$252,836 Understated
Disbursements	\$5,424,830	\$5,803,087	\$378,257 Understated
Ending Cash Balance	\$24,209	(\$28,330)	(\$52,539) Overstated

Explanation of Discrepancies

Receipts – 2002

The understatement of receipts was the result of the following:

- **Transfers Not Reported**– The DECF did not report on Schedules H3 (Transfers from the Non-federal Account) transfers from the non-federal account for salary and payroll related expenses for employees whose duties were considered to be 100% non-federal by the DECF. These expenses were paid from the allocation account. + \$242,613
- **Receipts Not Reported**– The DECF did not report a transfer from an affiliated committee. + 10,000
- Unexplained difference + 222

Understatement of Receipts

\$252,836

Disbursements – 2002

The understatement of disbursements was the net result of the following:

- **Payroll Not Reported** – The DECF did not report salary and payroll related expenses for employees whose duties they considered to be 100% non-federal. Even though the DECF incorrectly treated these expenses as 100% non-federal for reporting purposes, the expenses were correctly paid on an allocated basis using the administrative expense ratio. The expenses should have been reported on Schedules H4. + \$424,195
- **Miscellaneous Reporting Errors** - - 45,444
- Unexplained difference - 494

Net Understatement of Disbursements

\$378,257

During the exit conference the Audit staff provided the DECF representatives with workpapers detailing the misstatements of financial activity.

Interim Audit Report Recommendation and Committee Response

The Audit staff recommended the DECF file amended reports for the applicable reporting periods in calendar years 2001 and 2002 to correct the misstatement of financial activity. The DECF complied with the Audit staff's recommendation by submitting amended reports.

Finding 2. Disclosure of Refunds of Allocable Expenses

Summary

The DECF did not disclose correctly refunds from vendors in the amount of \$34,962. The DECF complied with the Audit staff's recommendation by filing amended reports to correct the disclosure errors.

Legal Standard

Disclosing Refunds of Allocable Expenses. Advisory Opinion 1995-22 describes two methods of reporting refunds. Method 1 discloses the refund and the federal and non-federal shares as negative entries on the Schedules H4 (Joint Federal/Non-federal Activity). Method 2 discloses the receipt of the refund as an offset to operating expenditures on the Schedules A and the federal account transfer to the non-federal account for the non-federal share is disclosed on Schedules H4.

Facts and Analysis

A review of all vendor refunds received by the DECF identified 33 disclosure errors totaling \$34,962. The DECF reported the vendor refunds on Schedules A as offsets to operating expenditures but did not transfer the non-federal share of the refunds to the non-federal account or report the non-federal share on Schedules H4. Refunds for allocable expenses must be deposited in the federal or allocation account and then allocated between the federal and non-federal accounts according to the same allocation ratio used to allocate the original disbursement. The non-federal share of the refunds was \$29,718.

Normally the Audit staff would recommend that the DECF transfer \$29,718 to the non-federal account. However, in this case a transfer is not warranted because during the audit period, the DECF paid \$63,502 more than its share for allocable expenditures and this amount exceeds the amount of refunds that would be due to the non-federal account. This issue was presented to the DECF representatives at the exit conference along with workpapers to demonstrate how to report the vendor refunds.

Interim Audit Report Recommendation and Committee Response

The Audit staff recommended the DECF file amended reports that include memo Schedules H4 to disclose correctly the non-federal share of the refunds. The DECF complied with the Audit staff's recommendation by submitting amended reports.

Finding 3. Recordkeeping for Disbursements

Summary

The DECF failed to maintain adequate records for disbursements for 18 refunds of contributions to individuals in the amount of \$34,500 as well as for two disbursements to media vendors in the amount of \$183,500. The DECF complied with the Audit staff's recommendation by providing the missing records.

Legal Standard

Required Records for Disbursements. For each disbursement, the treasurer of a political committee must keep records on the:

- Amount of the disbursement;
- Date when the disbursement was made;
- Name and address of the payee²;
- Purpose (a brief description of why the disbursement was made); and
- If the disbursement was made on behalf of a candidate, the candidate's name and the office sought by the candidate.
- If the disbursement was in excess of \$200, the records must include a receipt or invoice from the payee, or a cancelled check or share draft to the payee. If the disbursement was by credit card, the record must include the monthly statement or customer receipt and the cancelled check used to pay the credit card bill. 2 U.S.C. §432(c) and 11 CFR §102.9(b) and 104.3(b)(3)(i).

Preserving Records and Copies of Reports. The treasurer of a political committee must preserve all records and copies of reports for 3 years after the report is filed. 2 U.S.C. §432(d).

Facts and Analysis

The Audit staff reviewed all refunds of contributions and identified 18 refunds in the amount of \$34,500 that lacked adequate documentation. These refunds were for contributions made by credit card. The refunds were handled through the credit card merchant account. There were no credit card refund forms available for review during audit fieldwork. The only documentation provided was the bank statement showing a debit to the credit card merchant account and the entry on the DECF's database.

A review of all media expenditures identified two disbursements in the amount of \$183,500 that lacked adequate documentation. Both disbursements were wire transfers

² The payee is usually the person providing the goods or services to the committee. In the case of travel advances, however, the payee is the person receiving the advance. 11 CFR §102.9(b)(2).

for which the only documentation made available was the debit entry on the bank statement and the entry on the DECF's database. It appears that one of the wires in the amount of \$163,500 was a second payment to a vendor. The vendor received two payments for the same amount on the same day. The DECF disclosed both payments on Schedules H4, but there was only one invoice for this vendor.

The DECF is required to keep invoice copies and/or customer receipt documentation for three years. Both of these issues were presented to the DECF representatives at the exit conference along with workpapers.

Interim Audit Report Recommendation and Committee Response

The Audit staff recommended the DECF obtain and provide the missing documentation for disbursements stated above. In response to the interim audit report, the DECF submitted credit card refund documentation and invoices for the media expenditures totaling \$211,370. Disbursements totaling \$6,630 remain undocumented.