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Final Audit Report on the Washington State Democratic Central Committee

January 1, 2003 – December 31, 2004

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 Washington State Democratic Central Committee (WSDCC) is a state party committee headquartered in Seattle, Washington. For more information, see the chart on the Committee Organization, p. 2.

Financial Activity (p. 2)

- **Federal Receipts**

○ Contributions from Individuals	\$ 2,632,225
○ Contributions from Other Political Committees	1,154,210
○ Transfers from Affiliated Party Committees	2,569,816
○ Transfers from Nonfederal and Levin Funds	659,526
○ Other Federal Receipts	39,204
Total Federal Receipts	\$7,054,981

- **Federal Disbursements**

○ Operating Expenditures	\$ 3,420,026
○ Contributions to Federal Candidates	31,241
○ Independent Expenditures	607,290
○ Coordinated Party Expenditures	723,065
○ Federal Election Activity	1,019,259
○ Other Federal Disbursements	662,438
Total Federal Disbursements	\$6,463,319

- **Levin Receipts**

- **Levin Disbursements**

\$ 87,750

\$ 78,117

Commission Findings (p. 3)

- Disclosure of Disbursements (Finding 1)
- Misstatement of Levin Financial Activity (Finding 2)

Additional Issues

- Contributions Made to Federal Candidates (Issue 1)
- Reporting of Disbursements for Communications (Issue 2)

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 Washington State Democratic Central Committee, 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, nonfederal, and Levin accounts.
 6. The consistency between reported figures and bank records.
 7. The completeness of records.
 8. Other committee operations necessary to the review.
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Part II

Overview of Committee

Committee Organization

Important Dates	WSDCC
• Date of Registration	October 16, 1979
• Audit Coverage	January 1, 2003 – December 31, 2004
Headquarters	Seattle, Washington
Bank Information	
• Bank Depositories	2
• Bank Accounts	6 Federal, 6 Nonfederal, 1 Levin
Treasurer	
• Treasurer When Audit Was Conducted	Habib M. Habib
• Treasurer During Period Covered by Audit	Habib M. Habib
Management Information	
• Attended FEC Campaign Finance Seminar	Yes
• Used Commonly Available Campaign Management Software Package	Yes
• Who Handled Accounting and Recordkeeping Tasks	Paid Staff

Overview of Financial Activity (Audited Amounts)

Federal Cash on hand @ January 1, 2003	\$ 71,554
○ Contributions from Individuals	2,632,225
○ Contributions from Other Political Committees	1,154,210
○ Transfers from Affiliated Party Committees	2,569,816
○ Transfers from Nonfederal and Levin Funds	659,526
○ Other Federal Receipts	39,204
Total Federal Receipts	\$ 7,054,981
○ Operating Expenditures	3,420,026
○ Contributions to Federal Candidates	31,241
○ Independent Expenditures	607,290
○ Coordinated Party Expenditures	723,065
○ Federal Election Activity	1,019,259
○ Other Federal Disbursements	662,438
Total Federal Disbursements	\$ 6,463,319
Federal Cash on hand @ December 31, 2004	\$ 663,216
Levin Cash on hand @ January 1, 2003	\$ 0
Total Levin Receipts	\$ 87,750
Total Levin Disbursements	\$ 78,117
Levin Cash on hand @ December 31, 2004	\$ 9,633

Part III Summaries

Commission Findings

Finding 1. Disclosure of Disbursements

WSDCC disclosed 68 disbursements, totaling \$1,800,636, which were itemized on the incorrect schedule or disclosed incorrect allocated activity or event. In response to the Interim Audit Report recommendation, WSDCC filed amended reports that sufficiently disclosed the required information. The Commission approved this finding. (For more detail, see p. 4)

Finding 2. Misstatement of Levin Financial Activity

The Audit staff's comparison of WSDCC's reported Levin financial activity to Levin bank records suggested a misstatement of receipts, disbursements, and 2004 ending cash on hand. In response to the Interim Audit Report recommendation, WSDCC amended its Schedules L (Aggregation Page: Levin Funds), Schedule L-A (Itemized Receipts of Levin Funds), and Schedule L-B (Itemized Disbursements of Levin Funds) to correct the misstatements. The Commission approved this finding. (For more detail, see p. 6)

Additional Issues

Issue 1. Contributions Made to Federal Candidates

The Audit staff's review of contributions suggested that WSDCC made six contributions to three Federal candidates that exceeded the limitation by \$6,103. In response to the Interim Audit Report recommendation, WSDCC resolved all but \$2,707 of these excessive contributions. In light of the expiration of the statute of limitations, the Commission did not approve this finding by the required four votes. (For more detail, see p. 8)

Issue 2. Reporting of Disbursements for Communications

WSDCC disclosed 10 disbursements totaling \$607,290 that appeared to be Independent Expenditures but were reported on Schedules B as Federal Election Activity or Schedules H6 (Disbursement of Federal and Levin Funds for Allocated Federal Election Activity). In response to the Interim Audit Report recommendation, WSDCC filed amended reports to correct the reporting for 2 transactions totaling \$90,436. For the remaining 8 transactions, totaling \$516,854, WSDCC filed amended reports disclosing both the federal and non-federal portions of the communications on Schedules B. The portions of the communications containing references to the Federal candidate were disclosed as volunteer exempt activities.

The Interim Audit Report requested that WSDCC provide documentation to verify that these disbursements qualified for the volunteer materials exemption. WSDCC was unable to provide documentation regarding the volunteer participation for the remaining eight disbursements. Nonetheless, WSDCC expressed its belief that these other

disbursements “were intended as volunteer exempt activities” and reported them as such. The Report of the Audit Division recommended no further corrective action.

In light of the lack of clarity regarding the amount of volunteer involvement needed, and the expiration of the statute of limitations, the Commission did not approve the Audit staff’s recommended finding by the required four votes. (For more detail, see p. 9)

Part IV

Commission Findings

Finding 1. Disclosure of Disbursements

Summary

WSDCC disclosed 68 disbursements, totaling \$1,800,636, which were itemized on the incorrect schedule or disclosed incorrect allocated activity or event. In response to the Interim Audit Report, WSDCC filed amended reports. The Commission concluded that no further corrective action was required.

Legal Standard

A. Reporting Disbursements. All political committees shall report the total amount of disbursements made during the reporting period of the calendar year in each of the following categories:

- Operating expenditures for allocated federal/nonfederal activity on Schedule H4 (Line 21a) and Operating expenditures other than shared operating expenditures on Schedule B (Line 21b);
- Contributions made to other political committees on Schedule B (Line 23);
- Independent expenditures made by the reporting committee on Schedule E (Line 24);
- Expenditures made under 2 U.S.C. §441a(d) on Schedule F (Line 25);
- Other disbursements on Schedule B (Line 29); and
- Allocated Federal Election Activity on Schedule H6 (Line 30a) and Federal Election Activity paid entirely with federal funds on Schedule B (Line 30b). 11 CFR §104.3(b)(1)

B. Reporting Allocable Expenses Between Federal Funds and Levin Funds. A State, district, or local political party committee that makes a disbursement for Federal election activity that is allocated between Federal funds and Levin funds must state the category of Federal election activity for which each allocable disbursement was made. 11 CFR §300.36(b)(2)(i)(B).

C Categories of Allocable Federal Election Activity. A State, district, or local political party committee may allocate disbursements between Federal funds and Levin funds for:

- Voter Registration Activity;

- Voter Identification;
- Get-Out-The-Vote Activity; and
- Generic Campaign Activity. 11 CFR §300.33(a)(1) and (2).

D. Categories of Non-Allocable Federal Election Activity. The following costs incurred by State, district, and local party committees and organizations must be paid for only with federal funds:

- A public communication that refers to a clearly identified candidate for federal office and that promotes, attacks, supports or opposes any candidate for federal office; and
- Services provided during a month by an employee of a state or local party committee who spends more than 25 percent of their compensated time during that month on activities in connection with a federal election, including FEA. 11 CFR §300.33(c)(1) and (2).

1. Facts

The Audit staff's review of disbursements suggested that 68 disbursements, totaling \$1,800,635, were itemized on the incorrect schedule or disclosed the incorrect allocated activity or event. Based on the information available at the time of the audit, these disclosure issues were categorized by Audit staff as follows:

- Forty-seven disbursements, totaling \$1,759,565, that were itemized on the incorrect schedule.² These consisted primarily of:
 - Six disbursements itemized on Schedules B (Itemized Disbursements), H4 (Disbursements for Allocated Federal/Nonfederal Activity), or H6 (Disbursements of Federal and Levin Funds for Allocated Federal Election Activity), totaling \$705,989, that should be disclosed on Schedule F as Coordinated Expenditures;
 - Ten disbursements itemized on Schedules B or H6, totaling \$607,290, that should be disclosed on Schedule E as Independent Expenditures (see Issue 2); and
 - Thirty disbursements itemized on Schedules H4 or H6, totaling \$446,026, that should be disclosed on Schedule B, Line 21b as Other Federal Operating Expenditures.
- Nineteen disbursements itemized on Schedule H6, totaling \$40,245, that disclosed the incorrect allocated activity or event.

The Audit staff discussed this matter with WSDCC representatives at an exit conference and provided a schedule of the transactions noted above.

2. Interim Audit Report & Audit Division Recommendation

The Interim Audit Report recommended that WSDCC amend its reports.

² No Federal under-funding resulted from disbursements erroneously reported as allocable activity on Schedules H4 or H6.

3. Committee Response to the Interim Audit Report

In response to the Interim Audit Report, WSDCC filed amended reports.

Commission Conclusion

The Commission concluded that no further action is required.³⁴

Finding 2. Misstatement of Levin Financial Activity

Summary

The Audit staff's comparison of WSDCC's reported Levin financial activity to Levin bank records suggested a misstatement of receipts, disbursements, and 2004 ending cash on hand. In response to the Interim Audit Report recommendation, WSDCC amended its reports to correct the misstatements. The Commission approved this finding.

Legal Standard

- A. **What to Report.** A state, district or local party committee of a political party that is a political committee must report all receipts and disbursements made for Federal election activity (FEA) if the aggregate amount of such receipts and disbursements is \$5,000 or more during the calendar year. The disclosure required must include receipts and disbursements of Federal funds and of Levin funds used for Federal election activity. With respect to Levin funds each report must disclose:
 - The amount of Levin fund cash on hand at the beginning and end of the reporting period;
 - The total amount of Levin fund receipts for the reporting period and for the calendar year;
 - The total amount of Levin fund disbursements for the reporting period and for the calendar year; and
 - The total amount of Levin funds transferred to the Federal or allocation account. 11 CFR §300.36(b)(2).

- B. **When to Itemize.** The committee must itemize any receipt of \$200 or more from any person for Federal election activity on Schedule L-A, and itemize any disbursement of \$200 or more to any person for Federal election activity on Schedule L-B. 11 CFR §300.36(b)(2)(iv).

³ For disbursements totaling \$650,433, WSDCC maintained that the disbursements qualify for the volunteer activity exemption and reported the disbursements as such on Schedule B, instead of as independent or coordinated expenditures as recommended by the Audit staff. WSDCC provided evidence of volunteer activity related to one communication, totaling \$133,579. In light of the lack of clarity on this issue, WSDCC is not required to take corrective action with respect to these disbursements.

⁴ For disbursements totaling \$650,433, WSDCC maintained that the disbursements qualify for the volunteer activity exemption and reported the disbursements as such on Schedule B, instead of as independent or coordinated expenditures as recommended by the Audit staff. WSDCC provided evidence of volunteer activity related to one communication, totaling \$133,579. In light of the lack of clarity on this issue, WSDCC is not required to take corrective action with respect to these disbursements.

1. Facts

The Audit staff's comparison of WSDCC's reported Levin financial activity to Levin bank records suggested a misstatement of receipts, disbursements, and 2004 ending cash on hand.⁵ The following chart outlines the discrepancies.

2003 - 2004 Activity			
	Reported	Bank Records	Discrepancy
December 19, 2003 Opening Cash Balance	\$ 0	\$ 0	\$ 0
Receipts	\$72,750	\$87,750	\$15,000 Understated
Disbursements	\$72,750	\$78,117	\$ 5,367 Understated
December 31, 2004 Ending Cash Balance	\$ 0	\$ 9,633	\$ 9,633 Understated

The understatement of receipts was due to:

- WA Federation of State Employees contribution on December 19, 2003 not reported on Schedule L-A + \$ 7,000
- Washington State Council of County and City Employees contribution on December 31, 2003 not reported on Schedule L-A + 3,000
- Grassroots Democrats contribution on January 30, 2004 not reported on Schedule L-A + 10,000
- AFL-CIO COPE PCC returned deposit on November 15, 2004 not reported on Schedule L-A (Original deposit on October 28, 2004 reported) - 5,000
- Net Receipt Understatement \$15,000

The understatement of disbursements was due to:

- Bank charges not reported on Schedule L + \$ 152
- Portion of Levin funds transfer on October 29, 2004 reported on Schedule H3 but not reported on Schedule L-B + 5.215
- Net Disbursement Understatement \$ 5,367

The December 31, 2004 ending cash balance difference of \$9,633 resulted from the receipts and disbursement discrepancies noted above.

The Audit staff discussed this matter with WSDCC representatives at an exit conference and provided a schedule of the transactions noted above. WSDCC stated they would amend the appropriate schedules as necessary.

⁵ This activity is reported on Schedules L (Aggregation Page: Levin Funds), L-A (Itemized Receipts of Levin Funds), and L-B (Itemized Disbursements of Levin Funds). The L schedules are memo schedules and do not affect totals on the Summary and Detailed Summary Pages.

2. Interim Audit Report & Audit Division Recommendation

The Interim Audit Report recommended that WSDCC amend its Schedules L, Schedule L-A, and Schedule L-B to properly report the Levin receipt and disbursement activity.

3. Committee Response to Interim Audit Report

In response to the Interim Audit Report, WSDCC amended its reports to correct the misstatements noted above.

Commission Conclusion

The Commission approved this finding.

Part V

Additional Issues

Issue 1. Contributions Made to Federal Candidates

Summary

The Audit staff's review of contributions suggested that WSDCC made six contributions to three Federal candidates that exceeded the limitation by \$6,103. In response to the Interim Audit Report recommendation, WSDCC resolved all but \$2,707 of these excessive contributions. In light of the expiration of the statute of limitations, the Commission did not approve this finding by the required four votes. Pursuant to Commission Directive 70,⁶ this matter is discussed in this "Additional Issues" section.

Legal Standard

A. Limits on Contributions Made by State and Local Party Committees. No multicandidate political committee shall make contributions to any candidate and his authorized political committees with respect to any election for Federal office which, in the aggregate, exceed \$5,000. 2 U.S.C. §441a(a)(2)(A).

B. Definition of Multicandidate Committee. A multicandidate committee is a political committee that:

- Has been registered with the Commission or the Secretary of Senate for at least 6 months;
- Has received contributions for Federal candidates from more than 50 persons; and
- (except for any State political party organization) Has made contributions to 5 or more Federal candidates. 11 CFR §100.5(e)(3).

1. Facts

The Audit staff's review of contributions suggested that WSDCC made six contributions to three Federal candidates that exceeded the limitation by \$6,103. These excessive contributions consisted of:

⁶ Available at http://www.fec.gov/directives/directive_70.pdf.

- Two primary election contributions to Alben 2004 that exceeded the contribution limit by \$3,180. WSDCC made a \$3,000 contribution on September 22, 2003, an in-kind contribution of \$2,180 on October 22, 2003, and a \$3,000 contribution on December 8, 2003;
- Two primary election contributions to Barbieri for Congress that exceeded the contribution limit by \$2,207. WSDCC made a \$2,500 contribution on December 22, 2003, a \$1,000 contribution on January 28, 2004, an in-kind contribution of \$2,207 on April 2, 2004, and a \$1,500 contribution on May 20, 2004; and
- Two general election contributions to Friends of Sandy Matheson that exceeded the contribution limit by \$716. WSDCC made an in-kind contribution of \$500 on September 27, 2004, a \$5,000 contribution on September 28, 2004, and an in-kind contribution of \$216 on October 26, 2004.

2. Interim Audit Report & Audit Division Recommendation

The Interim Audit Report recommended that WSDCC present evidence that the contributions were not excessive or request refunds.

3. Committee Response to Interim Audit Report

In response to the Interim Audit Report, WSDCC stated refunds could not be issued for \$3,180 of the excessive amount since the candidate committee had been terminated by the FEC. For the remaining excessive amount, WSDCC reclassified the in-kind contributions as coordinated expenditures.

Commission Conclusion

In light of the expiration of the statute of limitations, the Commission did not approve the Audit staff's recommended finding by the required four votes. Pursuant to Commission Directive 70, the discussion of this matter was moved to the "Additional Issues" section of the audit report.

Issue 2. Reporting of Disbursements for Communications

Summary

WSDCC reported 10 disbursements totaling \$607,290 that appeared to be Independent Expenditures but were reported on Schedules B as Federal Election Activity or Schedules H6 (Disbursement of Federal and Levin Funds for Allocated Federal Election Activity).

In response to the Interim Audit Report recommendation, WSDCC filed amended reports to correct the reporting for 2 transactions, totaling \$90,436. For the remaining 8 transactions, totaling \$516,854, WSDCC filed amended reports disclosing both the federal and non-federal portions of the communications on Schedules B. The portions of the communications containing references to the Federal candidate were disclosed as volunteer exempt activities.

The Interim Audit Report requested that WSDCC provide documentation to verify that these disbursements qualified for the volunteer materials exemption. WSDCC was unable to provide documentation regarding the volunteer participation for the remaining

eight disbursements. Nonetheless, WSDCC expressed its belief that these other disbursements “were intended as volunteer exempt activities” and reported them as such. The Report of the Audit Division recommended no further corrective action.

In light of the lack of clarity regarding the amount of volunteer involvement needed to qualify for the volunteer materials exemption, and the expiration of the statute of limitations, the Commission did not approve the Audit staff’s recommended finding by the required four votes. Pursuant to Commission Directive 70, this matter is discussed in this “Additional Issues” section.

Legal Standard

- A. Definition of Independent Expenditure.** An independent expenditure is an expenditure for a communication, such as a web site, newspaper, TV or direct mail advertisement, that:
 - Expressly advocates the election or defeat of a clearly identified candidate; and
 - Is not coordinated with a candidate, candidate’s committee, party committee or their agents. 11 CFR §100.16(a).

- B. Volunteer Activity for Party Committee.** The payment by a state committee of a political party of the costs of campaign materials (such as pins, bumper stickers, handbills, brochures, posters, party tabloids or newsletters, and yard signs) used by such committee in connection with volunteer activities on behalf of any nominee(s) of such party is not a contribution or disbursement, provided that the following conditions are met:
 1. Such payment is not for cost incurred in connection with any broadcasting, newspaper, magazine, bill board, direct mail, or similar type of general public communication. The term direct mail means any mailing(s) by a commercial vendor or any mailing(s) made from commercial lists.
 2. The portion of the payment allocable to federal candidates must be paid with federal funds.
 3. Such payment is not made from contributions designated by the donor to be spent on behalf of a particular candidate for Federal office.
 4. Such materials are distributed by volunteers and not by commercial or for profit operations.
 5. If made by a political committee such payments shall be reported by the political committee as a disbursement.
 6. The exemption is not applicable to campaign materials purchased by the national party committees. 11 CFR §100.87 (a), (b), (c), (d), (e) and (g) and 11 CFR §100.147 (a), (b), (c), (d), (e) and (g).

- C. Reporting Independent Expenditures.** Every political committee that makes independent expenditures must report all such independent expenditures on Schedule E.

Political committees and other persons who make independent expenditures at any time during a calendar year – up to and including the 20th day before an election –

must disclose this activity within 48 hours each time that the expenditures aggregate \$10,000 or more with respect to a given election.

Political committees and other persons who make independent expenditures during the last 20 days – up to 24 hours – before an election, must disclose this activity within 24 hours each time that the expenditures aggregate \$1,000 or more with respect to a given election. 11 CFR §104.4.

Facts and Analysis

A. Disbursements for Independent Expenditures

1. Facts

WSDCC reported 2 disbursements totaling \$90,436 on Schedules B as Federal Election Activity or Schedules H6 (Disbursement of Federal and Levin Funds for Allocated Federal Election Activity).⁷

The Audit staff discussed this matter with WSDCC representatives at an exit conference and provided a schedule of the disbursements. In response, WSDCC’s counsel believed that these expenditures were made for exempt party activities.

2. Interim Audit Report & Audit Division Recommendation

The Interim Audit Report recommended that WSDCC provide documentation to support that these disbursements qualify for the volunteer materials exemption and amend its reports to properly disclose these disbursements.

3. Committee Response to Interim Audit Report

In response to the Interim Audit Report, WSDCC amended its reports to correct two disbursements, totaling \$90,436, originally reported on Schedules H6. The portions of these communications containing references to Federal candidates were disclosed as Independent Expenditures on Schedules E.

4. Draft Final Audit Report

The Draft Final Audit Report recommended no further corrective action.

B. Disbursements for Volunteer Exempt Activities Referencing Federal and Nonfederal Candidates and generic references to the Democratic Party

1. Facts

TRP reported 8 transactions, totaling \$516,854, on Schedules B as Federal Election Activity or Schedules H6 (Disbursement of Federal and Levin Funds for Allocated Federal Election Activity).

⁷ The Audit staff noted that if these disbursements were independent expenditures, WSDCC would have been required to file the appropriate notices for these independent expenditures within the required 24 or 48 hour period in addition to reporting these transactions as independent expenditures on Schedules E (Itemized Independent Expenditures).

2. Interim Audit Report and Audit Division Recommendations

The Interim Audit Report recommended that WSDCC provide documentation to support that these disbursements qualify for the volunteer materials exemption and amend its reports to properly disclose these disbursements.

3. Committee Response to Interim Audit Report

In response to the Interim Audit Report, WSDCC filed amended reports disclosing the 8 transactions totaling \$516,854on Schedules B as Federal Election Activity Paid Entirely with Federal Funds. The WSDCC provided documentation supporting the volunteer exemption for one disbursement, but not for the other seven disbursements. Nonetheless, WSDCC expressed its belief that these other disbursements “were intended as volunteer exempt activities.” WSDCC reported the portions of all of the communications containing references to the Federal candidate as volunteer exempt activities. The portions of the communications referencing non-federal candidates and containing generic references to the Democratic Party were disclosed as “Voter Outreach Mail Piece – No Candidate Named”, “Non-Federal Portion of Candidate Mail Piece”, or “Generic Portion of Mail Piece.”

4. Draft Final Audit Report

The Draft Final Audit recommended no further corrective action.

Commission Conclusion

Given the lack of clarity regarding the amount of volunteer involvement needed to qualify for the volunteer materials exemption, and the expiration of the statute of limitations, the Commission did not approve the Audit staff’s recommended finding by the required four votes. Pursuant to Commission Directive 70, the discussion of this matter was moved to the “Additional Issues” section of the audit report. WSDCC is not required to take further action with respect to these disbursements.
