



FEDERAL ELECTION COMMISSION  
WASHINGTON, D.C. 20463

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July 27, 2015

## **AGENDA ITEM**

### **MEMORANDUM**

To: The Commission

Through: Alec Palmer *awp*  
Staff Director

From: Patricia C. Orrock *PCO*  
Chief Compliance Officer

Thomas E. Hintermister *TH*  
Assistant Staff Director  
Audit Division

Douglas Kodish *Dike*  
Audit Manager

By: Jeff Spilizewski *JS*  
Lead Auditor

Subject: Audit Division Recommendation Memorandum on the Committee for  
Charlotte/Charlotte DNC Host Committee (CFC)

**For Meeting of 9-17-15**

Pursuant to Commission Directive No. 70 (FEC Directive on Processing Audit Reports), the Audit staff presents its recommendations below and discusses the findings in the attached Draft Final Audit Report (DFAR). The Office of General Counsel has reviewed this memorandum and concurs with the recommendations.

#### **Finding 1. Recordkeeping for In-Kind Contributions**

During audit fieldwork, the Audit staff identified 23 in-kind contributions provided by corporations, commercial vendors, and individual contributors, totaling \$2,878,882, which lacked the required supporting documentation. In response to the Preliminary Audit Report, CFC provided some internally developed supporting documentation for a portion of its in-kind contributions, but these documents did not allow for verification of the reported amounts and the finding was not resolved. In its response to the Draft Final Audit Report, CFC counsel stated he was still trying to get more information from former CFC staff.

The Audit staff recommends that the Commission find that CFC failed to maintain appropriate documentation to support reported in-kind contributions totaling \$2,878,882.

**Finding 2. Disclosure of Disbursements**

During audit fieldwork, the Audit staff identified 43 disbursements totaling \$12,580,995 that were either missing or did not adequately provide the required disclosure information. In response to the Preliminary Audit Report, CFC filed amended disclosure reports that materially corrected the disbursement disclosure errors. In its response to the Draft Final Audit Report, CFC had no further comments.

The Audit staff recommends that the Commission find that CFC did not adequately disclose the required information for disbursements totaling \$12,580,995.

The Committee did not request an audit hearing.

If this memorandum is approved, a Proposed Final Audit Report will be prepared within 30 days of the Commission's vote.

In case of an objection, Directive No. 70 states that the Audit Division Recommendation Memorandum will be placed on the next regularly scheduled open session agenda.

Documents related to this audit report can be viewed in the Voting Ballot Matters folder. Should you have any questions, please contact Jeff Spilizewski or Douglas Kodish at 694-1200.

Attachment:

Draft Final Audit Report of the Audit Division on the Committee for  
Charlotte/Charlotte DNC Host Committee

cc: Office of General Counsel



# Draft Final Audit Report of the Audit Division on the Committee for Charlotte/Charlotte DNC Host Committee

(April 1, 2011 - December 31, 2012)

## Why the Audit Was Done

The Commission audits each host committee or municipal fund that represents a city where a publicly financed nominating convention was held. The audit seeks to determine whether the committee has materially complied with the prohibitions and disclosure requirements of the election law.<sup>1</sup>

## 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 Committee for Charlotte/Charlotte DNC Host Committee (CFC), headquartered in Charlotte, North Carolina, is a committee responsible for hosting the 2012 Democratic National Convention. For more information, see the chart on the Committee Organization, p. 2.

## Financial Activity (p. 2)

### • Receipts

○ Contributions to Defray Convention Expenses	\$ 24,428,337
○ Loans Received	13,000,000
○ Refunds, Rebates, Returns of Deposits	31
○ Other Income <sup>2</sup>	(2,709)
<b>Total Receipts</b>	<b>\$ 37,425,659</b>

### • Disbursements

○ Convention Expenditures	\$ 32,532,958
○ Transfers to Affiliated Committees	8,783
○ Loan Repayments Made	4,000,000
○ Other Disbursements	93,592
<b>Total Disbursements</b>	<b>\$ 36,635,333</b>

## Findings and Recommendations (p. 3)

- Recordkeeping for In-Kind Contributions (Finding 1)
- Disclosure of Disbursements (Finding 2)

<sup>1</sup> 11 CFR §9008.54.

<sup>2</sup> This amount was a result from loss on investments.

# **Draft Final Audit Report of the Audit Division on the Committee for Charlotte/ Charlotte DNC Host Committee**

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(April 1, 2011 - December 31, 2012)



# Table of Contents

	<b>Page</b>
<b>Part I. Background</b>	
Authority for Audit	1
Scope of Audit	1
Inventory of Committee Records	1
<b>Part II. Overview of Committee</b>	
Committee Organization	2
Overview of Financial Activity	2
<b>Part III. Summaries</b>	
Findings and Recommendations	3
<b>Part IV. Findings and Recommendations</b>	
Finding 1. Recordkeeping for In-Kind Contributions	4
Finding 2. Disclosure of Disbursements	6

# **Part I**

## **Background**

### **Authority for Audit**

This report is based on an audit of the Committee for Charlotte/Charlotte DNC Host Committee (CFC), undertaken by the Audit Division of the Federal Election Commission (the Commission) as mandated by Section 9008.54 of Title 11 of the Code of Federal Regulations. That section states the Commission shall conduct an examination and audit of each host committee registered under 11 CFR §9008.51.

### **Scope of Audit**

This Audit examined:

1. the receipt of contributions from prohibited sources;
2. the disclosure of contributions and other receipts;
3. the disclosure and nature of disbursements;
4. the disclosure of debts and obligations;
5. the completeness of records;
6. the consistency between reported figures and bank records; and
7. other committee operations necessary to the review.

### **Inventory of Committee Records**

The Audit staff routinely conducts an inventory of committee records before it begins the audit fieldwork. CFC records were materially complete and the fieldwork began immediately.

## Part II

### Overview of Committee

#### Committee Organization

<b>Important Dates</b>	
• Date of Registration	February 16, 2011
• Audit Coverage	April 1, 2011 - December 31, 2012
<b>Headquarters</b>	Charlotte, North Carolina
<b>Bank Information</b>	
• Bank Depositories	Two
• Bank Accounts	Three Accounts
<b>Treasurer</b>	
• Treasurer When Audit Was Conducted	Harvey Gantt
• Treasurer During Period Covered by Audit	Harvey Gantt
<b>Management Information</b>	
• Attended Commission Campaign Finance Seminar	No
• Who Handled Accounting and Recordkeeping Tasks	Paid Staff

#### Overview of Financial Activity (Audited Amounts)

<b>Cash-on-hand @ April 1, 2011</b>	<b>\$ 0</b>
<b>Receipts</b>	
○ Contributions to Defray Convention Expenses	24,428,337
○ Loans Received	13,000,000
○ Refunds, Rebates, Returns of Deposits	31
○ Other Income	(2,709)
<b>Total Receipts</b>	<b>\$ 37,425,659</b>
<b>Disbursements</b>	
○ Convention Expenditures	32,532,958
○ Transfers to Affiliated Committees	8,783
○ Loan Repayments Made	4,000,000
○ Other Disbursements	93,592
<b>Total Disbursements</b>	<b>\$ 36,635,333</b>
<b>Cash-on-hand @ December 31, 2012</b>	<b>\$ 790,326</b>

## **Part III**

### **Summaries**

#### **Findings and Recommendations**

##### **Finding 1. Recordkeeping for In-Kind Contributions**

The Audit staff identified 23 in-kind contributions provided by corporations, commercial vendors, and individual contributors totaling \$2,878,882 that lacked the required supporting documentation. In response to the Preliminary Audit Report recommendation, CFC provided some internally developed supporting documentation for a portion of its in-kind contributions, but the reported amounts still remain unverified and the finding unresolved. (For more detail, see p. 4.)

##### **Finding 2. Disclosure of Disbursements**

The Audit staff identified 43 disbursements totaling \$12,580,995 that were either missing or did not adequately provide required disclosure information. In response to the Preliminary Audit Report recommendation, CFC filed amended disclosure reports that materially corrected the disbursement disclosure errors. (For more detail, see p. 6.)

## Part IV

# Findings and Recommendations

### Finding 1. Recordkeeping for In-Kind Contributions

#### Summary

The Audit staff identified 23 in-kind contributions provided by corporations, commercial vendors, and individual contributors totaling \$2,878,882 that lacked the required supporting documentation. In response to the Preliminary Audit Report recommendation, CFC provided some internally developed supporting documentation for a portion of its in-kind contributions, but the reported amounts still remain unverified and the finding unresolved.

#### Legal Standard

- A. Receipts and disbursements of municipal funds.** Municipal funds may accept goods or services from commercial vendors for convention uses under the same terms and conditions (including reporting requirements) set forth at 11 CFR 9008.9 for convention committees. Businesses (including banks), labor organizations, and other organizations and individuals may donate funds or make in-kind donations to a municipal fund to pay for expenses listed in 11 CFR 9008.52(b). 11 CFR §9008.53.
- B. Recordkeeping for goods and services from commercial vendors for promotional consideration.** Commercial vendors may sell, lease, rent or provide their goods or services to the national committee with respect to a presidential nominating convention at reduced or discounted rates, or at no charge. The convention committee shall maintain documentation showing:
- the goods or services provided;
  - the date(s) on which the goods or services were provided;
  - the terms and conditions of the arrangement; and
  - what promotional consideration was provided. 11 CFR §9008.9(b)(4).
- C. Valuation of In-Kind Contributions.** The amount of an in-kind contribution shall be equal to the usual and normal value on the date received. 11 CFR §104.13(a)(1).
- D. Formal Requirements Regarding Reports and Statements.** Each political committee shall maintain records with respect to the matters required to be reported which shall provide in sufficient detail the necessary information and data from which the filed reports may be verified, explained, clarified, and checked for accuracy and completeness. 11 CFR §104.14(b)(1).
- E. Recordkeeping Requirements for Receipts.** The treasurer of a political committee shall keep an account of:

- All contributions received by or on behalf of the committee;
- The name and address of any person who makes a contribution in excess of \$50, together with the date and amount of the contribution; and
- The occupation and name of employer of any individual whose contributions aggregate more than \$200 during a calendar year, together with the date and amount of any such contributions. 11 CFR §102.9(a).

**F. Preserving Documents.** Committees must preserve these records for 3 years after a report is filed. 11 CFR §102.9(c).

## **Facts and Analysis**

### **A. Facts**

The Audit staff identified 23 in-kind contributions totaling \$2,878,882 that lacked the required supporting documentation. The in-kind contributions consisted of goods and services provided by commercial vendors, corporations, and individuals. Approximately half of the in-kind contributions totaling \$1,557,053 originated from one corporation.

Documentation supporting the amount of in-kind contributions reported were receipt and disbursement databases and a few internal tracking forms that stated the amount of the contribution, the line item to be utilized in its recording, and in one case, a contract reference.<sup>3</sup> However, no internal computational worksheets or documentation from contributors was provided that would allow for verification of the amounts reported. Also, in-kind contributions having some promotional consideration were not specifically identified or valued. During fieldwork, the Audit staff asked CFC representatives for additional in-kind documentation. CFC stated it was available and would be provided, but no additional documentation was sent.

### **B. Preliminary Audit Report & Audit Division Recommendation**

At the exit conference, the Audit staff discussed and provided a list of in-kind contributions for which CFC had not provided supporting documentation. CFC representatives acknowledged the missing support for in-kind contributions and stated they would locate and provide the required documentation.

The Preliminary Audit Report recommended that CFC obtain and provide documentation to support the in-kind contributions.

### **C. Committee Response to Preliminary Audit Report**

In response to the Preliminary Audit Report recommendation, CFC provided in-kind contribution documentation. The in-kind documentation consisted of four internally generated "tracking forms,"<sup>4</sup> totaling \$1,264,477, and an internal draft schedule that

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<sup>3</sup> The contractual information did not provide the type information needed to verify the amounts reported.

<sup>4</sup> This tracking form provided mostly information that was similar to the information found in CFC's database. The information consisted of the following: donor information, a description of the item or service provided, the proposed value, a budget line item, and a place for different committee signatures. All tracking forms were unsigned.

totaled \$2,121,206. In addition, a CFC representative stated that he was trying to work with former staff to provide additional in-kind documentation, but ultimately he said additional documentation could not be located.

The schedules and forms CFC provided did not include any documentation from the contributors, worksheet calculations, or any other details that would allow for verification of the in-kind contributions reported. In addition, \$757,676, still remains without supporting documentation. Because the documentation CFC provided did not allow for the verification of the in-kind contributions reported, along with the absence of documentation for the remaining in-kind contributions reported, this finding remains unresolved.

## **Finding 2. Disclosure of Disbursements**

### **Summary**

The Audit staff identified 43 disbursements totaling \$12,580,995 that were either missing or did not adequately provide required disclosure information. In response to the Preliminary Audit Report recommendation, CFC filed amended disclosure reports that materially corrected the disbursement disclosure errors.

### **Legal Standard**

- A. Reporting Expenditures.** When expenditures to the same person exceed \$200 in a calendar year, the committee must report the:
- Amount;
  - Date when the expenditures were made;
  - Name and address of the payee; and
  - Purpose (a brief description of why the disbursement was made- see below). 52 U.S.C. §30104(b)(5)(A) and 11 CFR §104.3(b)(3)(i).
- B. Reporting Credit Card Transactions.** A committee must itemize a payment to a credit card company if the payment exceeds the \$200 aggregate threshold for itemization. The committee must also itemize, as a memo entry, any specific transaction charged on a credit card if the payment to the actual vendor exceeds the \$200 threshold. The memo entry must include the name and address of the vendor, the purpose of the disbursement, and the amount of the disbursement. 11 CFR §102.9(b)(2) and 104.9.
- C. Reporting Reimbursements to Individuals.** When an individual who is not acting as a vendor advances his or her personal funds (or uses a personal credit card) to pay for goods or services on behalf of a political committee, the reimbursement must be reported as follows:
- Nontravel Advances. Report the individual as payee, and report the payments aggregating over \$200 to any one vendor as memo entries on Schedule B; and
  - Travel and Subsistence Advances. If the total amount reimbursed is \$500 or less, the committee should report the individual as payee. If the total amount

exceeds \$500 and payments to any one vendor used for the expenses total over \$200 for the calendar year, report the individual as payee, and report the payments aggregating over \$200 to any one vendor as memo entries on Schedule B. Each memo entry must include the name and address of the vendor, as well as the date, amount and purpose of the payment. 11 CFR §104.3(b)(3)(i) and 104.9.

## **Facts and Analysis**

### **A. Facts**

The Audit staff identified 43 disbursements totaling \$12,580,995 that were missing or did not adequately provide required disclosure information. The majority of disclosure errors, totaling \$12,319,532, involved inadequate purposes disclosed for payments to a single vendor. Additional information is provided in the table below.

<b>Description</b>	<b>Number of Transactions</b>	<b>Dollar Value</b>
Payments to corporations or other entities with inadequate or with no stated purpose disclosed.	38	\$12,490,987
Payment with an incomplete address disclosed.	1	\$48,365
Credit card payment with no memo entries disclosing payments made to the ultimate vendor.	1	\$28,487
Staff reimbursements with inadequate purposes and no memo entries disclosing payments made to the ultimate vendor.	3	\$13,156
	<b>Total</b>	<b>\$12,580,995</b>

### **B. Preliminary Audit Report & Audit Division Recommendation**

At the exit conference, the Audit staff discussed the missing or inadequate disclosure items with CFC representatives and provided a schedule detailing these items. CFC representatives stated they would amend their reports in response to the Preliminary Audit Report.

The Preliminary Audit Report recommended that CFC amend its reports to correctly disclose these disbursements on Schedule B (Itemized Disbursements).

### **C. Committee Response to Preliminary Audit Report**

In response to the Preliminary Audit Report recommendation, CFC filed amended disclosure reports that materially corrected the disbursement disclosure errors.