

**AGENDA DOCUMENT NO. 16-54-A**



FEDERAL ELECTION COMMISSION  
WASHINGTON, D.C. 20463

October 4, 2016

**AGENDA ITEM**

For Meeting of 10-27-16

**MEMORANDUM**

To: The Commission

Through: Alec Palmer *SWH/for*  
Staff Director

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

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

Rickida L. Morcomb *RM*  
Audit Manager

By: Ryan Krogen *RK*  
Lead Auditor

Subject: Audit Division Recommendation Memorandum on the Conservative Campaign Committee (CCC) (A13-15)

2016 OCT -4 PM 2:47

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. Reporting of Apparent Independent Expenditures**

**A. Reporting of Apparent Independent Expenditures**

The Audit staff identified 39 disbursements disclosed as operating expenditures on Schedule B (Itemized Disbursements), totaling \$294,036, which appeared to be apparent independent expenditures. Additionally, CCC did not properly disclose seven independent expenditures totaling \$12,168 that were publicly disseminated prior to payment and therefore required reporting as memo entries on Schedule E (Itemized Independent Expenditures) and reporting as debt on Schedule D (Debts and Obligations).

CCC did not provide a response to the Interim Audit Report (IAR). In response to the DFAR, CCC addressed the items in question stating they were for fundraising purposes, not electioneering, and did not require reporting as

independent expenditures. CCC did not file amended disclosure reports as recommended. CCC did not address the expenditures totaling \$12,168 that should have been reported as memo entries on Schedule E and debt on Schedule D. Absent evidence that the expenditures in question did not require reporting as independent expenditures, the Audit staff considers these expenditures to be independent expenditures.

The Audit staff recommends that the Commission find that CCC did not properly disclose apparent independent expenditures totaling \$294,036 on Schedule E. In addition, the Audit staff recommends that the Commission find that CCC did not properly disclose seven independent expenditures totaling \$12,168 that were publicly disseminated prior to payment as memo entries on Schedule E and as debt on Schedule D.

**B. Failure to File 24/48-Hour Reports for Independent Expenditures**

CCC did not file 24-hour reports for ten independent expenditures reported on Schedule E totaling \$12,302 in a timely manner and did not file required 24-hour reports for three independent expenditures totaling \$3,774. Additionally, for the apparent independent expenditures disclosed as operating expenditures totaling \$294,036, CCC did not file 24/48-hour reports for \$270,210 of these expenditures, as required. There was \$23,826 (\$294,036 - \$270,210) in apparent independent expenditures reported as operating expenditures that did not require 24/48-hour reports, as they were disseminated outside of the 24/48-hour report requirement periods.

CCC did not provide a response to the IAR. In response to the DFAR, CCC stated it is their goal to comply and timely file; and it has tightened procedures to ensure that future items are timely filed. CCC did not specifically address the apparent independent expenditures totaling \$294,036.

The Audit staff recommends that the Commission find that CCC untimely filed 24-hour reports for independent expenditures totaling \$12,302. In addition, the Audit staff recommends that the Commission find that CCC failed to file 24/48-hour reports for independent expenditures totaling \$3,774 and \$270,210 for apparent independent expenditures.

**Finding 2. Recordkeeping for Communications**

CCC reported 134 expenditures totaling \$357,998 on Schedule B as operating expenditures with purposes such as “fundraising blast emails”, “media consulting and commissions” and “online advertising”. Documentation provided by CCC was insufficient to make a determination pertaining to the purpose for these disbursements and verification as an operating expense.

CCC did not provide a response to the IAR. In response to the DFAR, CCC stated it has made improvements to its recordkeeping procedures. It stated some of the transactions noted in this finding as communications or electioneering, totaling \$8,926, were in fact travel for consultants. However, CCC did not identify which transactions made up the \$8,926 nor provide supporting documentation for them. CCC also provided seven vendor invoices totaling \$172,493, and stated these

invoices were for fundraising commissions and not communications. The seven invoices were the same as provided to the Audit staff during fieldwork and they provided no new information. Lastly, CCC provided six invoices totaling \$23,200 to demonstrate the expenses were for strategic consulting and fundraising consulting, not for media or communications. However, these invoices that now say consulting were provided during fieldwork with purposes indicating communications, such as "TV ad campaign". CCC did not provide the associated fundraising emails with any of the invoices and did not address the remaining expenditures totaling \$153,379 (\$357,998 - \$8,926 - \$172,493 - \$23,200) that had insufficient documentation. As such, the Audit staff considers this matter unresolved.

The Audit staff recommends that the Commission find that CCC did not provide the necessary records or information upon which the reported operating expenditures totaling \$357,998 may be verified or explained.

CCC 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 Ryan Krogen or Rickida Morcomb at 694-1200.

Attachment:

- Draft Final Audit Report of the Audit Division on the Conservative Campaign Committee

cc: Office of General Counsel



# Draft Final Audit Report of the Audit Division on the Conservative Campaign Committee

(April 5, 2011 - December 31, 2012)

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## 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.<sup>1</sup> 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 matters discussed in this report.

## About the Committee (p. 2)

The Conservative Campaign Committee is a non-connected committee headquartered in Willows, California. For more information, see the chart on Committee Organization, p. 2.

## Financial Activity (p. 2)

• <b>Receipts</b>	
○ Contributions from Individuals	\$ 3,871,317
○ Other Receipts	28,994
<b>Total Receipts</b>	<b>\$ 3,900,311</b>
• <b>Disbursements</b>	
○ Operating Expenditures	\$ 2,519,567
○ Independent Expenditures	1,339,170
○ Refund of Contributions	20,110
○ Other Disbursements	6,512
<b>Total Disbursements</b>	<b>\$ 3,885,359</b>

## Findings and Recommendations (p. 3)

- Reporting of Apparent Independent Expenditures (Finding 1)
- Recordkeeping for Communications (Finding 2)

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<sup>1</sup> 52 U.S.C. §30111(b).

# **Draft Final Audit Report of the Audit Division on the Conservative Campaign Committee**

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(April 5, 2011 - December 31, 2012)



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# Part I

## Background

### Authority for Audit

This report is based on an audit of the Conservative Campaign Committee<sup>2</sup> (CCC), 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 52 U.S.C. §30111(b), which permits the Commission to conduct audits and field investigations of any political committee that is required to file a report under 52 U.S.C. §30104. 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. 52 U.S.C. §30111(b).

### Scope of Audit

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

1. the consistency between reported figures and bank records;
2. the disclosure of individual contributors' occupation and name of employer;
3. the disclosure of independent expenditures;
4. the disclosure of debts and obligations pertaining to independent expenditures;
5. the completeness of disbursement records; and
6. other committee operations necessary to the review.

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<sup>2</sup> On December 18, 2012, the Commission received a Statement of Organization from the Campaign to Defeat Barack Obama officially changing its name to the Conservative Campaign Committee.

## Part II

### Overview of Committee

#### Committee Organization

<b>Important Dates</b>	
• Date of Registration	April 11, 2011
• Audit Coverage	April 5, 2011 <sup>3</sup> - December 31, 2012
<b>Headquarters</b>	
Willows, California	
<b>Bank Information</b>	
• Bank Depositories	One
• Bank Accounts	One Checking and One Savings
<b>Treasurer</b>	
• Treasurer When Audit Was Conducted	Kelly Lawler
• Treasurer During Period Covered by Audit	Kelly Lawler
<b>Management Information</b>	
• Attended Commission Campaign Finance Seminar	No
• Who Handled Accounting and Recordkeeping Tasks	Paid Staff

#### Overview of Financial Activity (Audited Amounts<sup>4</sup>)

<b>Cash-on-hand @ April 5, 2011</b>	<b>\$ 0</b>
<b>Receipts</b>	
○ Contributions from Individuals	3,871,317
○ Other Receipts	28,994
<b>Total Receipts</b>	<b>\$ 3,900,311</b>
<b>Disbursements</b>	
○ Operating Expenditures	2,519,567
○ Independent Expenditures	1,339,170 <sup>5</sup>
○ Refund of Contributions	20,110
○ Other Disbursements	6,512
<b>Total Disbursements</b>	<b>\$ 3,885,359</b>
<b>Cash-on-hand @ December 31, 2012</b>	<b>\$ 14,952</b>

<sup>3</sup> CCC opened its first bank account April 5, 2011.

<sup>4</sup> Audited amounts may differ from reported amounts; however, the differences were not material enough to result in a misstatement of financial activity finding.

<sup>5</sup> This amount, as well as the amount for operating expenditures, may change as a result of the Commission's final consideration of Finding 1.

## **Part III**

### **Summaries**

#### **Findings and Recommendations**

##### **Finding 1. Reporting of Apparent Independent Expenditures**

During audit fieldwork, the Audit staff ascertained that CCC disclosed independent expenditures, totaling \$1,339,170, on Schedule E (Itemized Independent Expenditures). Of these expenditures, CCC did not properly disclose independent expenditures totaling \$12,168 that were publicly disseminated prior to payment and therefore required reporting as memo entries on Schedule E and reporting as debt on Schedule D (Debts and Obligations). Additionally, the Audit staff identified disbursements disclosed as operating expenditures on Schedule B, Line 21b (Operating Expenditures), totaling \$294,036, which appear to be independent expenditures.

Of the \$1,339,170 independent expenditures reported on Schedule E, CCC did not file 24-hour reports for \$12,302 of them in a timely manner and did not file any 24-hour reports for \$3,774 of them. Additionally, for the \$294,036 disclosed as operating expenditures which appeared to be independent expenditures, CCC did not file 24/48-hour reports totaling \$270,210.

CCC did not submit a response to the Interim Audit Report. Absent evidence that the expenditures in question did not require reporting as independent expenditures and did not require 24/48-hour reports, the Audit staff considers these expenditures to be independent expenditures.

(For more detail, see p. 4.)

##### **Finding 2. Recordkeeping for Communications**

During audit fieldwork, the Audit staff reviewed disbursements to verify the accuracy of the information reported on the disclosure reports. CCC reported 134 expenditures totaling \$357,998 on Schedule B, Line 21 (Operating Expenditures) with purposes such as “fundraising blast emails”, “media consulting and commissions” and “online advertising”. Documentation that was provided by CCC was insufficient to make a determination pertaining to the purpose for these disbursements and verification as an operating expense.

CCC did not submit a response to the Interim Audit Report. Absent the further documentation as recommended, the Audit staff considers the documentation provided to be insufficient.

(For more detail, see p. 8.)

## Part IV

# Findings and Recommendations

### Finding 1. Reporting of Apparent Independent Expenditures

#### Summary

During audit fieldwork, the Audit staff ascertained that CCC disclosed independent expenditures, totaling \$1,339,170, on Schedule E (Itemized Independent Expenditures). Of these expenditures, CCC did not properly disclose independent expenditures totaling \$12,168 that were publicly disseminated prior to payment and therefore required reporting as memo entries on Schedule E and reporting as debt on Schedule D (Debts and Obligations). Additionally, the Audit staff identified disbursements disclosed as operating expenditures on Schedule B, Line 21b (Operating Expenditures), totaling \$294,036, which appear to be independent expenditures.

Of the \$1,339,170 independent expenditures reported on Schedule E, CCC did not file 24-hour reports for \$12,302 of them in a timely manner and did not file any 24-hour reports for \$3,774 of them. Additionally, for the \$294,036 disclosed as operating expenditures which appeared to be independent expenditures, CCC did not file 24/48-hour reports totaling \$270,210.

CCC did not submit a response to the Interim Audit Report. Absent evidence that the expenditures in question did not require reporting as independent expenditures and did not require 24/48-hour reports, the Audit staff considers these expenditures to be independent expenditures.

#### Legal Standard

**A. Definition of Independent Expenditures.** An independent expenditure is an expenditure made for a communication expressly advocating the election or defeat of a clearly identified candidate that is not made in cooperation, consultation, or concert with, or at the request or suggestion of, a candidate, a candidate's authorized committee, or their agents, or a political party or its agents.

A clearly identified candidate is one whose name, nickname, photograph or drawing appears, or whose identity is apparent through unambiguous reference, such as "your Congressman," or through an unambiguous reference to his or her status as a candidate, such as "the Democratic Presidential nominee" or "Republican candidate for Senate in this state."

Expressly advocating means any communication that:

- Uses phrases such as "vote for the President" or "re-elect your Congressman" or communications of campaign slogan(s) or individual word(s), which in context can have no other reasonable meaning than to urge election or defeat of one or more clearly identified candidates; or
- When taken as a whole and with limited references to external events, such as proximity to the election, could be interpreted by a reasonable person only as

advocating the election or defeat of one or more clearly identified candidates. 11 CFR §§100.16(a), 100.17 and 100.22.

**B. Disclosure Requirements – General Guidelines.** An independent expenditure shall be reported on Schedule E if, when added to other independent expenditures made to the same payee during the same calendar year, it exceeds \$200. Independent expenditures made (i.e., publicly disseminated) prior to payment should be disclosed as memo entries on Schedule E and as a debt on Schedule D. Independent expenditures of \$200 or less need not be itemized, though the committee must report the total of those expenditures on line (b) on Schedule E. 11 CFR §§104.3(b)(3)(vii), 104.4(a) and 104.11.

**C. Last-Minute Independent Expenditure Reports (24-Hour Reports).** Any independent expenditures aggregating \$1,000 or more, with respect to any given election, and made after the 20<sup>th</sup> day but more than 24 hours before the day of an election, must be reported and the report must be received by the Commission within 24 hours after the expenditure is made. A 24-hour report is required each time additional independent expenditures aggregate \$1,000 or more. The date that a communication is publicly disseminated serves as the date that the committee must use to determine whether the total amount of independent expenditures has, in the aggregate, reached or exceeded the threshold reporting amount of \$1,000. 11 CFR §§104.4(f) and 104.5(g)(2).

**D. Independent Expenditure Reports (48-Hour Reports).** Any independent expenditures aggregating \$10,000 or more with respect to any given election, at any time during a calendar year, up to and including the 20th day before an election, must be disclosed within 48 hours each time the expenditures aggregate \$10,000 or more. The reports must be filed with the Commission within 48 hours after the expenditure is made. 11 CFR §§104.4(f) and 104.5(g)(1).

**E. 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).

## **Facts and Analysis**

### **A. Reporting of Apparent Independent Expenditures**

#### **1. Facts**

During audit fieldwork, the Audit staff reviewed disbursements to ensure that independent expenditures were disclosed correctly on Schedule E, including disclosing the correct memo and debt entry, if required. The Audit staff noted that CCC disclosed independent expenditures totaling \$1,339,170 on Schedule E; however, CCC made additional apparent media-related expenditures totaling \$294,036 and disclosed them as operating expenditures. A review and analysis of these expenditures revealed the following:

a) **Apparent Independent Expenditures Reported as Operating Expenditures (Copy of Communication Made Available)**

CCC made 39 apparent independent expenditures totaling \$294,036 for which it provided invoices, television and radio advertisements, fundraising blast emails, and additional supporting documents to the Audit staff. All of these communications totaling \$294,036 contained language expressly advocating the election or defeat of a clearly identified candidate, as defined under 11 CFR §100.22(a). The television and radio advertisements included statements such as: “Defeat Obama Tele-thon”, “Defeat Obama Radio-thon” and “Rebuild America, Defeat Obama Tour”.

The fundraising blast emails included links to television and radio advertisements, as well as express advocacy language within the body of the email. The emails included express advocacy phrases such as: “Defeat Barack Obama” and “We’re going to stop Barack Obama from getting Wisconsin’s 10 Electoral Votes”.

b) **Independent Expenditures Reported on Schedule E (Independent Expenditure Schedule) – Disclosure Errors**

CCC made 240 independent expenditures totaling \$1,339,170 which were reported on Schedule E. CCC did not properly disclose seven independent expenditures totaling \$12,168 that were publicly disseminated prior to payment and therefore required reporting as memo entries on Schedule E. CCC should have disclosed memo entries on Schedule E when the communications were disseminated in addition to the reporting at the time of payment. This amount should also be reported as a corresponding debt on Schedule D (Debts and Obligations).

## 2. Interim Audit Report & Audit Division Recommendation

At the exit conference, the Audit staff presented the schedule of apparent disclosure errors for independent expenditures. In response to the exit conference, CCC provided additional documentation including copies of seven major fundraising blast emails totaling \$100,374. Upon review, the Audit staff determined these email communications included express advocacy, but were not properly reported as independent expenditures. The cost of these fundraising emails is part of the \$294,036 in section A.1 (a) above.

The Interim Audit Report recommended that CCC provide documentation and evidence that apparent independent expenditures totaling \$294,036 did not require reporting as independent expenditures. Evidence should have included invoices with the corresponding communications and, where applicable, CCC’s payment information. Absent such evidence, CCC should have amended its reports to disclose these disbursements as independent expenditures on Schedule E and submitted revised procedures for reporting independent expenditures. The Interim Audit Report further recommended that CCC amend its reports to include the reporting of \$12,168 in independent expenditures as memo entries based on the date in which the materials were disseminated and report this amount as a corresponding debt on Schedule D.

### 3. Committee Response to Interim Audit Report

CCC did not submit a response to the Interim Audit Report, nor were amended disclosure reports filed. Absent evidence that the expenditures in question did not require reporting as independent expenditures, the Audit staff considers these expenditures to be independent expenditures.

## B. Failure to File 24/48-Hour Reports for Independent Expenditures

### 1. Facts

The Audit staff reviewed independent expenditures reported by CCC, as well as the apparent independent expenditures noted above, to determine whether additional reporting of a 24/48-hour report was required.<sup>6</sup> The following was noted:

#### a) Independent Expenditures Reported on Schedule E (Independent Expenditure Schedule)

Of the \$1,339,170 reported on Schedule E:

- i) CCC failed to file 24-hour reports for three disbursements totaling \$3,774.
- ii) CCC untimely filed 24-hour reports for ten disbursements totaling \$12,302, which were generally two to three days late and were prior to the general election.

#### b) Apparent Independent Expenditures Reported as Operating Expenditures

Of the \$294,036 in apparent independent expenditures reported on Schedule B, CCC did not file 24/48-hour reports totaling \$270,210<sup>7</sup>.

### 2. Interim Audit Report & Audit Division Recommendation

At the exit conference, the Audit staff provided the CCC representative with a schedule of undisclosed or late filed 24/48-hour reports. The CCC representative did not provide any comments.

Absent documentation and evidence that apparent independent expenditures noted above in section A.1 (a) did not require reporting as independent expenditures, the Interim Audit Report recommended that CCC provide documentation to support that the 24/48-hour reports, totaling \$286,286 (\$3,774+ \$12,302 + \$270,210) were timely filed or that the reports were not required. Such documentation should have included support for the date of public dissemination to determine whether or not a 24/48-hour report was required.

<sup>6</sup> The date the expenditure is publicly distributed serves as the date that the independent expenditure is made for purposes of the additional 24/48-hour report filing requirement. In the absence of a known date for public dissemination, the Audit staff used the invoice date or date of incurrence to determine if a 24/48-hour report was required. The Audit staff used the invoice date for 15 of the payments, totaling \$125,582, to determine if a 24/48-hour report was required.

<sup>7</sup> There was \$23,826 (\$294,036 - \$270,210) in apparent independent expenditures reported as operating expenditures that did not require 24/48-hour reports. Based on the available documentation, these expenses were publicly disseminated outside of the 24/48-hour report requirement periods for California's Primary Election (1/1/12 - 6/3/12) and General Election (1/1/12 - 11/4/12).

### 3. Committee Response to Interim Audit Report

CCC did not submit a response to the Interim Audit Report. Absent evidence that the expenditures in question did not require reporting as independent expenditures and did not require 24/48-hour reports, the Audit staff considers these expenditures above as requiring 24/48-hour reports.

## **Finding 2. Recordkeeping for Communications**

### **Summary**

During audit fieldwork, the Audit staff reviewed disbursements to verify the accuracy of the information reported on the disclosure reports. CCC reported 134 expenditures totaling \$357,998 on Schedule B, Line 21 (Operating Expenditures) with purposes such as “fundraising blast emails”, “media consulting and commissions” and “online advertising”. Documentation that was provided by CCC was insufficient to make a determination pertaining to the purpose for these disbursements and verification as an operating expense.

CCC did not submit a response to the Interim Audit Report. Absent the further documentation as recommended, the Audit staff considers the documentation provided to be insufficient.

### **Legal Standard**

**A. 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 check for accuracy and completeness. 11 CFR §104.14(b)(1).

**B. 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. 52 U.S.C. §30102(d).

### **Facts and Analysis**

#### **A. Facts**

During audit fieldwork, the Audit staff reviewed disbursements to verify the accuracy of the information reported on the disclosure reports. CCC made 134 expenditures totaling \$357,998 for which documentation was insufficient to make a determination pertaining to whether these disbursements were correctly reported on Schedule B, Line 21b (Operating Expenditures).

The Audit staff’s analysis of the documentation that was provided, including CCC’s disbursement database, invoices and bank statements, determined the following:

- i. **Disbursements – Invoices Provided – No Copies of Communication Provided (\$353,323)**  
Disbursements totaling \$353,323 were paid to vendors for services such as fundraising communications and disclosed on Schedule B with purposes of

“fundraising blast emails”, “media consulting and commissions” and “online advertising”. For these 133 disbursements, CCC provided payment documentation and invoices, some invoices contained titles of candidates or issues including one titled “paulryan” and another titled “waronwomen”. However, CCC did not provide the associated communication. Without a copy of the communications, the Audit staff is unable to verify CCC’s reporting of these amounts as operating expenditures. The Audit staff requested copies of the associated communication. To date, this information has not been provided.

ii. **Disbursements – No Invoices or Copies of Communication Provided (\$4,675)**

There was one disbursement for newsletters with missing invoices and missing communications totaling \$4,675. The disbursement was reflected on CCC’s database as a payment to one vendor and disclosed on Schedule B with the purpose of “email list and newsletter”. Without a copy of the invoices and communications, the Audit staff is unable to verify CCC’s reporting of this amount as operating expenditures. The Audit staff requested the invoices, payment documentation, and copies of the communications. To date, this information has not been provided.

**B. Interim Audit Report & Audit Division Recommendation**

At the exit conference, the Audit staff presented a schedule of the disbursements for which further records were necessary to verify the accuracy of CCC’s reporting (with the discussion of independent expenditures at Finding 1 above). The CCC representative did not provide any comments.

The Interim Audit Report recommended that CCC provide the necessary information from which the reported operating expenditures totaling \$357,998 may be verified or explained. Such records should have included copies of communications, invoices with the corresponding communications and, where applicable, CCC’s payment information.

**C. Committee Response to Interim Audit Report**

CCC did not submit a response to the Interim Audit Report. Absent the further documentation as recommended, the Audit staff considers the documentation provided to be insufficient.