

May 24, 2011

**MEMORANDUM**

**To:** The Commission

**Through:** Alec Palmer  
Acting Staff Director

**From:** Patricia Carmona  
Chief Compliance Officer

Joseph F. Stoltz  
Assistant Staff Director  
Audit Division

Kendrick Smith  
Audit Manager

**By:** Scott Dotzler  
Lead Auditor

**Subject:** Audit Division Recommendation Memorandum on the Democratic Party of Arkansas (A09-16)

Pursuant to Commission Directive No. 70 (FEC Directive on Processing Audit Reports), the Audit staff's recommendation is presented below and the finding is discussed in the attached Draft Final Audit Report. The Office of General Counsel has reviewed this memorandum and concurs with the recommendation.

**Misstatement of Financial Activity**

The Audit staff recommends that the Commission find that the Democratic Party of Arkansas misstated their financial activity for calendar year 2007.

The Committee made no additional response to this finding and 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.

Should an objection be received, 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 on Voting Ballot Matters. Should you have any questions, please contact Scott Dotzler or Kendrick Smith at 694-1200.**

**Attachment:**

- **Draft Final Audit Report of the Audit Division on the Democratic Party of Arkansas**

**cc: Office of General Counsel**



# Draft Final Audit Report of the Audit Division on the Democratic Party of Arkansas

January 1, 2007 – December 31, 2008

## 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 the matter discussed in this report.

## About the Committee (p. 2)

The Democratic Party of Arkansas is a state party committee headquartered in Little Rock, Arkansas. For more information, see the chart on the Committee Organization, p. 2.

## Financial Activity (p. 2)

• Receipts	
○ Contributions from Individuals	\$ 620,492
○ Contributions from Other Political Committees	326,600
○ Transfers from Affiliated Party Committees	113,217
○ Transfers from Non-Federal Accounts	1,507,775
○ Other Receipts	119,305
<b>Total Receipts</b>	<b>\$ 2,687,389</b>
• Disbursements	
○ Operating Disbursements	\$ 2,213,994
○ Loan Repayments Made	31,319
○ Federal Election Activity	107,908
○ Transfers to Non-Federal Account	224,349
○ Other Disbursements	117,600
<b>Total Disbursements</b>	<b>\$ 2,695,170</b>

## Finding and Recommendation (p. 3)

- Misstatement of Financial Activity

<sup>1</sup> 2 U.S.C. §438(b).

# **Draft Final Audit Report of the Audit Division on the Democratic Party of Arkansas**

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January 1, 2007 – December 31, 2008

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# Part I

## Background

### Authority for Audit

This report is based on an audit of the Democratic Party of Arkansas (DPA), 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 risk factors and as a result, this audit examined:

1. The disclosure of disbursements, debts and obligations.
2. The disclosure of expenses allocated between federal and non-federal accounts.
3. The disclosure of individual contributors' occupation and name of employer.
4. The consistency between reported figures and bank records.
5. The completeness of records.
6. Other committee operations necessary to the review.

## Part II Overview of Committee

### Committee Organization

<b>Important Dates</b>	
• Date of Registration	March 8, 1976
• Audit Coverage	January 1, 2007 – December 31, 2008
<b>Headquarters</b>	
Little Rock, Arkansas	
<b>Bank Information</b>	
• Bank Depositories	Four
• Bank Accounts	Seven Federal, Five Non-federal, One Levin (unused)
<b>Treasurer</b>	
• Treasurer When Audit Was Conducted	Karen Garcia
• Treasurer During Period Covered by Audit	Karen Garcia
<b>Management Information</b>	
• Attended FEC Campaign Finance Seminar	Yes
• Who Handled Accounting and Recordkeeping Tasks	Paid staff

### Overview of Financial Activity (Audited Amounts)

Cash on hand @ January 1, 2007	\$ 68,560
o Contributions from Individuals	620,492
o Contributions from Other Political Committees	326,600
o Transfers from Affiliated Party Committees	113,217
o Transfers from Non-Federal Accounts	1,507,775
o Other Receipts	119,305
<b>Total Receipts</b>	<b>\$ 2,687,389</b>
o Operating Disbursements	2,213,994
o Loan Repayments Made	31,319
o Federal Election Activity	107,908
o Transfers to Non-Federal Account	224,349
o Other Disbursements	117,600
<b>Total Disbursements</b>	<b>\$ 2,695,170</b>
Cash on hand @ December 31, 2008	\$ 60,779

## **Part III Summary**

### **Finding and Recommendation**

#### **Misstatement of Financial Activity**

During audit fieldwork, a comparison of DPA's reported activity to bank records revealed a misstatement of receipts and disbursements in 2007. DPA understated receipts and disbursements by \$148,974 and \$146,561, respectively.

In response to the Interim Audit Report, DPA amended its reports to materially correct the misstatements. (For more detail, see p. 4)

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## Part IV

# Finding and Recommendation

### Misstatement of Financial Activity

#### Summary

During audit fieldwork, a comparison of DPA's reported activity to bank records revealed a misstatement of receipts and disbursements in 2007. DPA understated receipts and disbursements by \$148,974 and \$146,561, respectively.

In response to the Interim Audit Report, DPA amended its reports to materially correct the misstatements.

#### 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;
- the total amount of disbursements for the reporting period and for the calendar year; and,
- certain transactions that require itemization on Schedule A (Itemized Receipts) or Schedule B (Itemized Disbursements). 2 U.S.C. §434(b)(1), (2), (3), (4) and (5).

#### Facts and Analysis

##### A. Facts

As part of fieldwork, the Audit staff reconciled DPA's reported activity to its bank records for 2007. The following chart outlines the discrepancies for the beginning cash balance, receipts, disbursements, and the ending cash balance. Succeeding paragraphs address the reasons for the misstatements, if known.

<b>2007 Committee Activity</b>			
	<b>Reported</b>	<b>Bank Records</b>	<b>Discrepancy</b>
Beginning Cash Balance @ January 1, 2007	\$67,443	\$68,560	\$1,117 Understated
Receipts	\$1,410,249	\$1,559,223	\$148,974 Understated
Disbursements	\$1,400,534	\$1,547,095	\$146,561 Understated
Ending Cash Balance @ December 31, 2007	\$77,158	\$80,688	\$3,530 Understated

The beginning cash balance was understated by \$1,117 and is unexplained, but likely resulted from prior period discrepancies.

The understatement of receipts resulted from the following:

• Unreported fundraising proceeds	\$ 87,496
• Unreported reimbursement from non-federal account	66,000
• Unexplained difference	(4,522)
<b>Net understatement of receipts</b>	<u>\$ 148,974</u>

The understatement of disbursements resulted from the following:

• Unreported transfer of fundraising proceeds to non-federal account	\$ 87,496
• Unreported payment of non-federal activity	66,000
• Unexplained difference	(6,935)
<b>Net understatement of disbursements</b>	<u>\$ 146,561</u>

The \$87,496 adjustment included in both the understatement of receipts and disbursements represents net non-federal proceeds from fundraising events in which DPA received both federal and non-federal contributions. The contributions were received in the form of the ticket price paid to attend the events and were collected by a commercial ticket processing company. The company subsequently submitted a check to DPA for the proceeds, less its service fee. DPA deposited the check into its federal account, then calculated the non-federal share and transferred that amount to the non-federal account but failed to report the receipt of the non-federal portion of the proceeds and the transfer to the non-federal account (\$87,496). The federal portion along with the service fees were reported by DPA.

The \$66,000 adjustment included in both the understatement of receipts and disbursements represents non-federal activity that was mistakenly paid for out of a federal account, then reimbursed using non-federal funds. The reimbursement occurred approximately three weeks after the expense was paid, but neither transaction was reported by DPA.

The \$3,530 understatement of the ending cash balance was the result of the misstatements described above.

#### **B. Interim Audit Report & Audit Division's Recommendation**

The Audit staff discussed the misstatements for 2007 with DPA representatives at the exit conference and provided relevant work papers detailing the reporting errors. Regarding the reporting of the non-federal proceeds and subsequent transfer, DPA representatives explained they excluded from the report both the receipt and the transfer because they only deposited the proceeds in the federal account after receiving a single, co-mingled check, which included both federal and non-federal funds. They further added that they would amend the appropriate schedules as necessary to correct the misstatements.

Regarding the non-federal activity that was paid for mistakenly out of a federal account and subsequently reimbursed using non-federal funds, DPA representatives contend that since both transactions occurred during the same reporting period, they were justified in excluding them from the report.

In the Interim Audit Report, the Audit staff recommended that DPA amend its 2007 reports to correct the misstatements noted above.

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

In response to the Interim Audit Report, DPA filed amended reports that materially corrected the misstatements.

In addition, DPA provided evidence demonstrating that some adjustments suggested in the Interim Audit Report were not necessary. The amounts shown in the table above have been revised to reflect these changes.

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