



Draft Final Audit Report of the Audit Division on Djou for Hawaii

(January 1, 2009 – December 31, 2010)

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 Campaign (p. 2)

Djou for Hawaii is the principal campaign committee for Charles Kong Djou, Republican candidate for the U. S. House of Representatives from the State of Hawaii, 1st District, headquartered in Honolulu, Hawaii. For more information, see the chart on the Campaign Organization p. 2.

Financial Activity (p. 2)

• Receipts	
○ Contributions from Individuals	\$ 1,917,158
○ Contributions from Other Political Committees	717,032
○ Transfers from Other Authorized Committees	38,069
Total Receipts	\$ 2,672,259
• Disbursements	
○ Operating Expenditures	\$ 2,597,123
○ Contribution Refunds	5,985
Total Disbursements	\$ 2,603,108

Findings and Recommendations (p. 3)

- Misstatement of Financial Activity (Finding 1)
- Failure to File 48-Hour Notices (Finding 2)
- Reporting of Debts and Obligations (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 Djou for Hawaii (DFH), 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 whether 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 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 consistency between reported figures and bank records;
6. the completeness of records; and
7. other campaign operations necessary to the review.

Part II

Overview of Campaign

Campaign Organization

Important Dates	
• Date of Registration	November 23, 2007
• Audit Coverage	January 1, 2009 - December 31, 2010
Headquarters	
Honolulu, Hawaii	
Bank Information	
• Bank Depositories	One
• Bank Accounts	One checking
Treasurer	
• Treasurer When Audit Was Conducted	Chris S. Mashiba
• Treasurer During Period Covered by Audit	Chris S. Mashiba
Management Information	
• Attended Commission Campaign Finance Seminar	No
• Who Handled Accounting and Recordkeeping Tasks	Volunteer Staff

Overview of Financial Activity (Audited Amounts)

Cash-on-hand @ January 1, 2009	\$ 123,939
Receipts	
○ Contributions from Individuals	1,917,158
○ Contributions from Other Political Committees	717,032
○ Transfers from Other Authorized Committees	38,069
Total Receipts	\$2,672,259
Disbursements	
○ Operating Expenditures	2,597,123
○ Contribution Refunds	5,985
Total Disbursements	\$2,603,108
Cash-on-hand @ December 31, 2010	\$ 193,090

Part III

Summaries

Findings and Recommendations

Finding 1. Misstatement of Financial Activity

During audit fieldwork, a comparison of reported figures with bank records revealed that DFH overstated its December 31, 2010 cash-on-hand balance by \$58,302. In response to the Interim Audit Report recommendation, DFH filed amended reports that materially corrected the above misstatement.

(For more detail, see p. 4.)

Finding 2. Failure to File 48-Hour Notices

During audit fieldwork, the Audit staff noted that DFH failed to file 48-hour notices for 28 contributions, totaling \$50,700, that were received prior to the special election and subsequent primary and general elections. In response to the Interim Audit Report recommendation, DFH explained that the enormous volume of receipts during the notification period and a shortage of manpower resulted in notices for the identified contributions not being filed.

(For more detail, see p. 5.)

Finding 3. Reporting of Debts and Obligations

During audit fieldwork, the Audit staff identified debts totaling \$168,990 that were not disclosed on Schedule D (Debts and Obligations). In response to the Interim Audit Report recommendation, DFH materially corrected the omission by filing amended Schedules D.

(For more detail, see p. 6.)

Part IV

Findings and Recommendations

Finding 1. Misstatement of Financial Activity

Summary

During audit fieldwork, a comparison of reported figures with bank records revealed that DFH overstated its December 31, 2010 cash-on-hand balance by \$53,302. In response to the Interim Audit Report recommendation, DFH filed amended reports that materially corrected the above misstatement.

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 election cycle; and
 - the total amount of disbursements for the reporting period and for the election cycle.
- 2 U.S.C. §434(b)(1), (2), and (4).

Facts and Analysis

A. Facts

During audit fieldwork, the Audit staff reconciled DFH's reported activity with its bank records for the period covered by the audit and determined that DFH overstated the ending cash-on-hand balance as of December 31, 2010 by \$53,302. This was due primarily to reporting discrepancies noted in disclosure reports filed during the audit period.

B. Interim Audit Report & Audit Division Recommendation

At the exit conference, the Audit staff explained the misstatement and subsequently provided DFH representatives with schedules detailing the discrepancy identified during the audit period. The representatives indicated that DFH would file the necessary amendment.

The Interim Audit Report recommended that DFH amend the cash balance on its most recently filed report with an explanation that the change resulted from a prior-period audit adjustment. Further, the Audit Report recommended that DFH reconcile the cash balance of its most recent report to identify any subsequent discrepancies that may affect the adjustment recommended by the Audit staff.

C. Committee Response to Interim Audit Report

In response to the Interim Audit report, DFH filed amended reports that materially corrected the above misstatement.

Finding 2. Failure to File 48-Hour Notices

Summary

During audit fieldwork, the Audit staff noted that DFH failed to file 48-hour notices for 28 contributions, totaling \$50,700, that were received prior to the special election and subsequent primary and general elections. In response to the Interim Audit Report recommendation, DFH explained that the enormous volume of receipts during the notification period and a shortage of manpower resulted in notices for the identified contributions not being filed.

Legal Standard

Last-Minute Contributions (48-Hour Notice). Campaign committees must file special notices regarding contributions of \$1,000 or more received less than 20 days but not more than 48-hours before any election in which the candidate is running. This rule applies to all types of contributions to any authorized committee of the candidate, including:

- contributions from the candidate;
- loans from the candidate and other non-bank sources; and
- endorsements or guarantees of loans from the candidate. 11 CFR §104.5(f).

Facts and Analysis

A. Facts

During audit fieldwork, the Audit staff identified 199 contributions, totaling \$338,471, that were greater than \$1,000 and were received during the 48-hour notice period for the special general election as well as subsequent primary and general elections. A review of these contributions indicated that DFH did not file 48-hour notices for 28 contributions totaling \$50,700.

B. Interim Audit Report & Audit Division Recommendation

At the exit conference, the Audit staff provided DFH representatives with schedules detailing the failure to file notices for 48 contributions totaling \$87,700. In response to the exit conference, DFH demonstrated that it had not received 20 of the contributions, totaling \$37,000, within the notice period. Those contribution amounts have been removed from the above total (\$50,700 = \$87,700 - \$37,000).

The Interim Audit Report recommended that DFH provide documentation demonstrating that it had filed 48-hour notices for the contributions in question or documentation establishing that the contributions were not subject to 48-hour notification.

C. Committee Response to Interim Audit Report

DFH cited the enormous volume of contributions received in the notice period and the shortage of manpower as contributing factors in its failure to file 48-hour notices for the remaining \$50,700 in contributions identified in the audit. A committee representative further explained: "However, on certain occasions, I was not able to report some of the contributions for the 48 hour report that were received on the respective 48 hour report date because they were in fact entered into the software a day or two later by another

volunteer staff member. This procedure has been corrected and should not happen again in this next election cycle.”

Finding 3. Reporting of Debts and Obligations

Summary

During audit fieldwork, the Audit staff identified debts totaling \$168,990 that were not disclosed on Schedule D (Debts and Obligations). In response to the Interim Audit Report recommendation, DFH materially corrected the omission by filing amended Schedules D.

Legal Standard

A. Continuous Reporting Required. A political committee must disclose the amount and nature of outstanding debts and obligations until those debts are extinguished. 2 U.S.C §434(b)(8) and 11 CFR §§104.3(d) and 104.11(a).

B. Obligation to Estimate Debt. When the exact amount of a debt or obligation is not known, the report shall state that the amount reported is an estimate. Once the exact amount is determined, the political committee shall either amend the report(s) containing the estimate or indicate the correct amount on the report for the reporting period in which such amount is determined.

C. Separate Schedules. A political committee must file separate schedules for debts owed by the committee and debts owed to the committee, together with a statement explaining the circumstances and conditions under which each debt and obligation was incurred or extinguished. 11 CFR §104.11(a).

D. Itemizing Debts and Obligations:

- A debt of \$500 or less must be reported once it has been outstanding 60 days from the date incurred (the date of the transaction); the committee reports it on the next regularly scheduled report.
- A debt exceeding \$500 must be disclosed in the report that covers the date on which the debt was incurred. 11 CFR §104.11(b).

Facts and Analysis

A. Facts

During audit fieldwork, the Audit staff noted that the DFH disclosure reports filed during the audit period did not disclose any debt owed. Although DFH paid the majority of its vendor invoices in a timely manner, the review of DFH disbursements identified 40 debts, totaling \$168,990², that should have been reported on Schedule D.

² Each debt in this amount was counted once even if it required disclosure over multiple reporting periods. In order for DFH to correctly file amended reports, the schedule provided included the amount of each debt required to be reported for each reporting period.

B. Interim Audit Report & Audit Division Recommendation

The Audit staff informed DFH representatives of this matter at the exit conference and subsequently provided schedules detailing the undisclosed debts for each reporting period of the audit cycle. DFH representatives indicated that DFH would file amended reports.

The Interim Audit Report recommended that DFH amend its reports to disclose all unreported debts and obligations.

C. Committee Response to Interim Audit Report

DFH filed amended Schedules D that materially corrected the unreported debts and obligations. Further, DFH's response stated that it continued to believe that a majority of the unrecorded debts involved instances in which invoices had not been received until shortly before payment was made or involved invoiced amounts that had been in dispute. Consequently, the actual amount of the debt was unknown at the time the reports were due.