Final Audit Report of the Commission on the Democratic Party of Arkansas

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. The audit determines whether the committee complied with the limitations, prohibitions and disclosure requirements of the Act.

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
  - Total Receipts $2,687,389

- 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
  - Total Disbursements $2,695,170

Future Action
The Commission may initiate an enforcement action, at a later time, with respect to the matter discussed in this report.

Commission Finding (p. 3)
- Misstatement of Financial Activity

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1 2 U.S.C. §438(b).
Final Audit Report of the
Commission on the
Democratic Party of Arkansas

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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.

Audit Hearing
DPA declined an opportunity for a hearing before the Commission on the matter presented in this report.
Part II
Overview of Committee

Committee Organization

Important Dates

- Date of Registration: March 8, 1976

Headquarters
Little Rock, Arkansas

Bank Information

- Bank Depositories: Four
- Bank Accounts: Seven Federal, Five Non-federal, One Levin (unused)

Treasurer

- Treasurer When Audit Was Conducted: Karen Garcia
- Treasurer During Period Covered by Audit: Karen Garcia

Management Information

- Attended FEC Campaign Finance Seminar: Yes
- Who Handled Accounting and Recordkeeping Tasks: Paid staff

Overview of Financial Activity
(Audited Amounts)

<table>
<thead>
<tr>
<th>Cash-on-hand @ January 1, 2007</th>
<th>$68,560</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions from Individuals</td>
<td>620,492</td>
</tr>
<tr>
<td>Contributions from Other Political Committees</td>
<td>326,600</td>
</tr>
<tr>
<td>Transfers from Affiliated Party Committees</td>
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<td>Operating Disbursements</td>
<td>2,213,994</td>
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<td>117,600</td>
</tr>
<tr>
<td>Total Disbursements</td>
<td>$2,695,170</td>
</tr>
<tr>
<td>Cash-on-hand @ December 31, 2008</td>
<td>$60,779</td>
</tr>
</tbody>
</table>
Part III
Summary

Commission Finding

Misstatement of Financial Activity
During audit fieldwork, a comparison of DPA’s reported activity with 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. The Commission approved this finding. (For more detail, see p. 4)
Part IV
Commission Finding

Misstatement of Financial Activity

Summary
During audit fieldwork, a comparison of DPA’s reported activity with 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. The Commission approved this finding.

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.

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

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)

Net understatement of receipts $148,974

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)

Net understatement of disbursements $146,561

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.

D. Draft Final Audit Report
In the Draft Final Audit Report, the Audit staffed acknowledged that DPA had amended its reports to disclose these transactions.

Commission Conclusion
On June 10, 2011, the Commission considered the Audit Division Recommendation Memorandum in which the Audit Division recommended that the Commission adopt a finding that DPA misstated its financial activity for 2007.

The Commission approved the Audit staff recommendation.