



# Draft Final Audit Report of the Audit Division on Rossi for Senate

(May 24, 2010 - 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.<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 Campaign (p. 2)

Rossi for Senate is the principal campaign committee for Dino Rossi, Republican candidate for the United States Senate from the state of Washington, headquartered in Everett, Washington. For more information, see the chart on the Campaign Organization, p. 2.

## Financial Activity (p. 2)

• Receipts	
○ From Individuals	\$ 8,348,360
○ From Political Committees	641,248
○ Transfers from Affiliates	665,484
○ Other	
○ Operating Expenditures	19,298
<b>Total Receipts</b>	<b>\$ 9,674,390</b>
• Disbursements	
○ Operating Expenditures	\$ 9,553,965
○ Contribution Refunds	20,360
○ Transfers to Authorized Committees	1,500
<b>Total Disbursements</b>	<b>\$ 9,575,825</b>

## Finding and Recommendation (p. 3)

- Misstatement of Financial Activity

<sup>1</sup> 2 U.S.C. §438(b).

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# Part I

## Background

### Authority for Audit

This report is based on an audit of Rossi for Senate (RFS), 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, 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 individual contributors' occupation and name of employer;
5. the consistency between reported figures and bank records;
6. the completeness of records; and
7. other committee operations necessary to the review.

## Part II

### Overview of Campaign

#### Campaign Organization

<b>Important Dates</b>	
• Date of Registration	June 8, 2010
• Audit Coverage	May 24, 2010 - December 31, 2010
<b>Headquarters</b>	
Everett, Washington	
<b>Bank Information</b>	
• Bank Depositories	One
• Bank Accounts	One Checking
<b>Treasurer</b>	
• Treasurer When Audit Was Conducted	Phil Dyer (June 8, 2010 – January 30, 2012); Dino Rossi (January 31, 2012 – present)
• Treasurer During Period Covered by Audit	Phil Dyer
<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 @ May 24, 2010</b>	<b>\$ 0</b>
<b>Receipts</b>	
○ From Individuals	8,348,360
○ From Political Committees	641,248
○ Transfers from Affiliates	665,484
○ Offsets to Operating Expenditures	19,298
<b>Total Receipts</b>	<b>\$ 9,674,390</b>
<b>Disbursements</b>	
○ Operating Expenditures	9,553,965
○ Contribution Refunds	20,360
○ Transfers to Authorized Committees	1,500
<b>Total Disbursements</b>	<b>\$ 9,575,825</b>
<b>Cash-on-hand @ December 31, 2010</b>	<b>\$ 98,565</b>

## **Part III Summary**

### **Finding and Recommendation**

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

During audit fieldwork, a comparison of RFS's reported financial activity with its bank records revealed a misstatement of disbursements. In response to the Interim Audit Report recommendation, RFS amended its disclosure reports to materially correct the misstatement. (For more detail, see p. 4.)

## Part IV

# Finding and Recommendation

### Misstatement of Financial Activity

#### Summary

During audit fieldwork, a comparison of RFS's reported financial activity with its bank records revealed a misstatement of disbursements. In response to the Interim Audit Report recommendation, RFS amended its disclosure reports to materially correct the 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;
- the total amount of disbursements for the reporting period and for the election cycle; and
- certain transactions that require itemization on Schedule B (Itemized Disbursements). 2 U.S.C. §434(b)(1), (2), (4) and (5).

#### Facts and Analysis

##### A. Facts

The Audit staff reconciled RFS's reported activity with its bank records and identified a misstatement of disbursements for 2010. The following chart details the discrepancy and the succeeding paragraphs explain the reasons for the misstatement.

2010 Activity			
	Reported	Bank Records	Discrepancy
Beginning Cash-on-Hand @ May 24, 2010	\$0	\$0	\$0
Receipts	\$9,645,437	\$9,674,390	\$28,953 Understated
Disbursements	\$9,421,114	\$9,575,825	\$154,711 Understated
Ending Cash-on-Hand @ December 31, 2010	\$150,678 <sup>2</sup>	98,565	\$52,113 Overstated

<sup>2</sup> RFS's reported ending cash balance does not equal the difference of receipts and disbursements because RFS decreased its beginning cash-on-hand balance by \$73,645 on its October 2010 Quarterly report. Absent that error, the reported ending cash balance as of December 31, 2010 would have been \$224,323.

As noted above, RFS understated disbursements by \$154,711 in 2010. This misstatement of disbursements resulted from the following reporting discrepancies:

• In-kind contributions reported as memo entries	+ \$ 3,010
• In-kind contributions reported on Schedule A, not on Schedule B	+ 4,847
• Disbursements reported but not supported by check or debit	- 178,492
• Payroll Disbursements not reported	+ 40,958
• Operating Disbursements not reported	+ 289,986
• Unexplained Difference	- 5,598
<b>Net Understatement of Disbursements</b>	<b>\$ 154,711</b>

RFS made payroll disbursements totaling \$40,958 that could not be traced to its reports. The payroll disbursements consisted of payroll dated on July 1, 2010 (\$22,422), and on July 15, 2010 (\$18,536). In addition, there were operating disbursements totaling \$289,986 that could not be traced to its reports. These disbursements consisted of a media vendor payment (\$231,047), two payments for consulting services (\$28,850), and other disbursements (\$25,589).

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

The Audit staff and RFS representatives discussed the misstatement at the exit conference, and the Audit staff also provided schedules supporting the disbursement adjustments. RFS representatives acknowledged the deficiencies in its reports and indicated that RFS would file corrective amendments.

The Interim Audit Report recommended that RFS amend its disclosure reports to correct the misstatement of disbursements for 2010 and amend its most recently filed report to correct the cash-on-hand balance with information that the change resulted from a prior period audit adjustment.

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

In response to the Interim Audit Report recommendation, RFS filed amended disclosure reports that materially corrected the misstatement of disbursements for 2010.