



# Interim Audit Report of the Audit Division on the State Democratic Executive Committee of Alabama

(January 1, 2009 - December 31, 2010)

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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 the matter discussed in this report.

## About the Committee (p. 2)

The State Democratic Executive Committee of Alabama is a state party committee headquartered in Montgomery, Alabama. For more information, see the chart on the Committee Organization, p. 2.

## Financial Activity (p. 2)

• Receipts		
○ Contributions from Individuals	\$	342,232
○ Transfers from Affiliated Committees		413,892
○ Contributions from Other Political Committees		225,377
○ Transfers from Non-federal Accounts		316,171
○ All Other Receipts		173,243
<b>Total Receipts</b>	<b>\$</b>	<b>1,470,915</b>
• Disbursements		
○ Operating Expenditures	\$	950,626
○ Federal Election Activity		456,345
○ All Other Disbursements		72,274
<b>Total Disbursements</b>	<b>\$</b>	<b>1,479,245</b>

## Finding and Recommendation (p. 3)

- Recordkeeping for Employees

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<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 the State Democratic Executive Committee of Alabama (SDA), 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 disclosure of individual contributors' occupation and name of employer;
2. the disclosure of disbursements, debts and obligations;
3. the disclosure of expenses allocated between federal and non-federal accounts;
4. the consistency between reported figures and bank records;
5. the disclosure of independent expenditures;
6. the completeness of records; and
7. other committee operations necessary to the review.

### **Commission Guidance**

#### **Request for Early Commission Consideration of a Legal Question**

Pursuant to the "Policy Statement Establishing a Program for Requesting Consideration of Legal Questions by the Commission," SDA requested early consideration of a legal question raised during the audit. SDA questioned whether the monthly time logs required under 11 C.F.R. §106.7(d)(1) applied to employees paid with 100 percent federal funds. (See Finding, page 4.)

The Commission concluded, by a vote of 5-1, that 11 C.F.R. §106.7(d)(1) does require committees to keep a monthly log for employees paid exclusively with federal funds. Exercising its prosecutorial discretion, the Commission decided, however, that it would not pursue recordkeeping violations for the failure to keep time logs or to provide affidavits to account for employee salaries paid with 100 percent federal funds and reported as such. The Audit staff informed SDA Counsel of the Commission's decision on SDA's request. This audit report does not include any finding or recommendation with respect to SDA's employees paid with 100 percent federal funds and reported as such.

## Part II

### Overview of Committee

#### Committee Organization

<b>Important Dates</b>	
• Date of Registration	July 10, 1976
• Audit Coverage	January 1, 2009 - December 31, 2010
<b>Headquarters</b>	Montgomery, Alabama
<b>Bank Information</b>	
• Bank Depositories	Two
• Bank Accounts	Three Federal, Two Non-federal, One Levin
<b>Treasurer</b>	
• Treasurer When Audit Was Conducted	Mr. Edgar C. Gentle, III (1/31/11 – 7/8/12) Mr. James B. Davidson (7/9/12 – 12/5/12) Mr. James D. Turner (12/6/12 – Present)
• Treasurer During Period Covered by Audit	Mr. Brannon Walden (5/22/08 – 1/30/11)
<b>Management Information</b>	
• Attended Commission Campaign Finance Seminar	Yes
• Who Handled Accounting and Recordkeeping Tasks	Paid Staff

#### Overview of Financial Activity (Audited Amounts)

<b>Cash-on-hand @ January 1, 2009</b>	<b>\$ 13,139</b>
<b>Receipts</b>	
o Contributions from Individuals	342,232
o Transfers from Affiliated Committees	413,892
o Contributions from Other Political Committees	225,377
o Transfers from Non-federal Accounts	316,171
o All Other Receipts	173,243
<b>Total Receipts</b>	<b>\$ 1,470,915</b>
<b>Disbursements</b>	
o Operating Disbursements	\$ 950,626
o Federal Election Activity	456,345
o All Other Disbursements	72,274
<b>Total Disbursements</b>	<b>\$ 1,479,245</b>
<b>Cash-on-hand @ December 31, 2010</b>	<b>\$ 4,809</b>

## **Part III Summary**

### **Finding and Recommendation**

#### **Recordkeeping for Employees**

During audit fieldwork, the Audit staff determined that SDA did not maintain any monthly payroll logs, as required, to document the percentage of time each employee spent on federal election activity. For 2009 and 2010, the Audit staff identified payments to SDA employees totaling \$279,429, for whom SDA was required to maintain monthly payroll logs. This consisted of \$248,930, for which payroll was allocated between federal and non-federal funds, and \$30,499, for which payroll was exclusively non-federal. Prior and subsequent to the exit conference, SDA representatives provided the Audit staff with affidavits for most of the employees attesting to the percentage of time spent on federal election activity. For the SDA employees paid with an allocation of federal and non-federal funds or exclusively non-federal funds, the Audit staff recommends that SDA implement a plan to maintain monthly payroll logs to track the percentage of time each employee spends on federal election activity. (For more detail, see p.4.)

## Part IV

# Finding and Recommendation

### Recordkeeping for Employees

#### Summary

During audit fieldwork, the Audit staff determined that SDA did not maintain any monthly payroll logs, as required, to document the percentage of time each employee spent on federal election activity. For 2009 and 2010, the Audit staff identified payments to SDA employees totaling \$279,429, for whom SDA was required to maintain monthly payroll logs. This consisted of \$248,930, for which payroll was allocated between federal and non-federal funds, and \$30,499, for which payroll was exclusively non-federal. Prior and subsequent to the exit conference, SDA representatives provided the Audit staff with affidavits for most of the employees attesting to the percentage of time spent on federal election activity. For the SDA employees paid with an allocation of federal and non-federal funds or exclusively non-federal funds, the Audit staff recommends that SDA implement a plan to maintain monthly payroll logs to track the percentage of time each employee spends on federal election activity.

#### Legal Standard

**Maintenance of Monthly Logs.** Party committees must keep a monthly log of the percentage of time each employee spends in connection with a federal election.

Allocations of salaries, wages, and fringe benefits are to be undertaken as follows:

- employees who spend 25% or less of their compensated time in a given month on federal election activities must be paid either from the federal account or be allocated as administrative costs;
- employees who spend more than 25% of their compensated time in a given month on federal election activities must be paid only from a federal account; and,
- employees who spend none of their compensated time in a given month on federal election activities may be paid entirely with funds that comply with State law. 11 CFR §106.7(d)(1).

#### Facts and Analysis

##### A. Facts

During fieldwork, the Audit staff reviewed disbursements for payroll. SDA did not maintain any monthly payroll logs or equivalent records to document the percentage of time its employees spent in connection with federal election activity. These logs are required to document the proper allocation of federal and non-federal funds used to pay employees. For 2009 and 2010, logs were required for \$279,429 in payroll.<sup>2 3</sup> All of

<sup>2</sup> Payroll is stated net of taxes and benefits.

<sup>3</sup> Payments to SDA employees paid with 100 percent federal funds and reported as such are not included in this finding. (See Background section, page 1 – Request for Early Commission Consideration of a Legal Question.)

these individuals were disclosed as having been paid with an allocation of federal and non-federal funds (\$248,910) or exclusively non-federal funds (\$30,499).

The Audit staff requested that SDA provide documentation to verify the time employees spent on federal election activity. In response, SDA provided signed affidavits for five of the 11 employees noted above. The affidavits stated the employee name, job title and responsibilities, the time period covered by the affidavit and the funding used. They also included a brief statement concerning the time spent on federal election activity.

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

The Audit staff discussed this matter again with SDA representatives at the exit conference. SDA did not provide the requested monthly time logs during the response period; SDA did, however, submit additional affidavits from three employees and another after the response period. Each of these affidavits stated the employee name, job title and responsibilities, the time period covered by the affidavit and the funding used, and included a brief statement regarding the time spent on federal election activity.

The Audit staff recommends that, within 30 calendar days of service of this report, SDA provide:

- evidence that it maintained monthly time logs to document how much time each employee spent on federal election activity; or
- a plan to maintain monthly payroll logs to track the percentage of time each employee spends on federal election activity.