



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

October 27, 2014

MEMORANDUM

To: The Commission

Through: Alec Palmer
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Subject: Preliminary Audit Report on the Committee for Charlotte/Charlotte DNC
Host Committee (CFC)

Attached for your consideration is the subject audit report, along with the legal analysis (LRA 965) prepared by the Office of General Counsel. As recommended in LRA 965, the Audit Division is providing a brief discussion of possible impermissible CFC expenditures that were not included as a finding in the audit report. These expenditures may not relate to promoting the host city or defraying convention expenses in accordance with 11 C.F.R. § 9008.52(b).

CFC, on behalf of the 2012 Democratic National Convention Committee, Inc., contracted with RKCP to provide production services and arrange for and oversee the provision of certain goods and services related to production elements as well as certain construction elements of the convention.

This contract included a production budget totaling \$11,700,000, with payments made according to a negotiated Cash Flow schedule.¹ Expenditures paid for by CFC in this contract were consistent with the type of disbursements deemed permissible in prior Democratic host committee audits.

In addition to the production contract, RKCP billed and CFC paid seven additional invoices totaling \$619,533. As with the expenditures noted above, the Audit staff considered \$372,762 of the \$619,533 as permissible host committee expenditures since similar expenditures from past host committee audits were deemed permissible. For the two remaining invoices, totaling \$246,771,² the Audit staff could not find documentation demonstrating whether these expenditures had been deemed either permissible or impermissible by the Audit Division in past cycles. However, the Audit staff did not include the matter in the Audit Report since the final reconciliation of RKCP production expenses resulted in a refund to CFC of \$579,929. This refunded amount more than offset the amount of the possible impermissible CFC expenditures.³

This report is being circulated for a tally vote. Should an objection be received, it is recommended that the report be considered at the next regularly scheduled Executive Session.

**Attachments: Preliminary Audit Report on the Committee for Charlotte/Charlotts DNC Host Committee
Legal Analysis (LRA 965) dated October 16, 2014**

¹ A copy of the RKCP contract is provided with other voting ballot matters.

² One invoice totaling \$167,121 was paid to reimburse production crew's air, per diem and housing. This crew included departments covering band staging, beauty, graphics, pyrotechnics, executive production, announcer, talent, and technical. The second invoice totaling \$79,650 was for a pyrotechnics and confetti effects package.

³ The LRA, page 4, discusses past practices and provides citations for situations in which refunds or other funds have similarly been applied.



Preliminary Audit Report of the Audit Division on the Committee for Charlotte/Charlotte DNC Host Committee

(April 1, 2011 - December 31, 2012)

Why the Audit Was Done

The Commission audits each host committee or municipal fund that represents a city where a publicly financed nominating convention was held. The audit seeks to determine whether the committee has materially complied with the prohibitions and disclosure requirements of the election law.¹

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 Committee (p. 2)

The Committee for Charlotte/Charlotte DNC Host Committee (CFC), headquartered in Charlotte, North Carolina, is a committee responsible for hosting the 2012 Democratic National Convention. For more information, see the chart on the Committee Organization, p. 2.

Financial Activity (p. 2)

• **Receipts**

○ Contributions to Defray Convention Expenses	\$ 24,428,337
○ Loans Received	13,000,000
○ Refunds, Rebates, Returns of Deposits	31
○ Other Income ²	(2,709)
Total Receipts	\$ 37,425,659

• **Disbursements**

○ Convention Expenditures	\$ 32,532,958
○ Transfers to Affiliated Committees	8,783
○ Loan Repayments Made	4,000,000
○ Other Disbursements	93,592
Total Disbursements	\$ 36,635,333

Findings and Recommendations (p. 3)

- **Recordkeeping for In-Kind Contributions (Finding 1)**
- **Disclosure of Disbursements (Finding 2)**

¹ 11 CFR §9008.54.

² This amount was a result from loss on investments.

**Preliminary Audit Report of the
Audit Division on the
Committee for Charlotte/
Charlotte DNC Host Committee**

(April 1, 2011 - December 31, 2012)



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Part I

Background

Authority for Audit

This report is based on an audit of the Committee for Charlotte/Charlotte DNC Host Committee (CFC), undertaken by the Audit Division of the Federal Election Commission (the Commission) as mandated by Section 9008.54 of Title 11 of the Code of Federal Regulations. That section states the Commission shall conduct an examination and audit of each host committee registered under 11 CFR §9008.51.

Scope of Audit

This Audit examined:

1. the receipt of contributions from prohibited sources;
2. the disclosure of contributions and other receipts;
3. the disclosure and nature of disbursements;
4. the disclosure of debts and obligations;
5. the completeness of records;
6. the consistency between reported figures and bank records; and
7. other committee operations necessary to the review.

Inventory of Committee Records

The Audit staff routinely conducts an inventory of committee records before it begins the audit fieldwork. CFC records were materially and the fieldwork began immediately.

Part II

Overview of Committee

Committee Organization

Important Dates	
• Date of Registration	February 16, 2011
• Audit Coverage	April 1, 2011 - December 31, 2012
Headquarters	Charlotte, North Carolina
Bank Information	
• Bank Depositories	Two
• Bank Accounts	Three Accounts
Treasurer	
• Treasurer When Audit Was Conducted	Harvey Gantt
• Treasurer During Period Covered by Audit	Harvey Gantt
Management Information	
• Attended Commission Campaign Finance Seminar	No
• Who Handled Accounting and Recordkeeping Tasks	Paid Staff

Overview of Financial Activity (Audited Amounts)

Cash-on-hand @ April 1, 2011	\$ 0
Receipts	
○ Contributions to Defray Convention Expenses	24,428,337
○ Loans Received	13,000,000
○ Refunds, Rebates, Returns of Deposits	31
○ Other Income	(2,709)
Total Receipts	\$ 37,425,659
Disbursements	
○ Convention Expenditures	27,537,052
○ Transfers to Affiliated	8,755
○ Loan Repayments Made	4,000,000
○ Other Disbursements	93,592
Total Disbursements	\$ 36,635,333
Cash-on-hand @ December 31, 2012	\$ 790,326

Part III

Summaries

Findings and Recommendations

Finding 1. Recordkeeping for In-Kind Contributions

The Audit staff identified 23 in-kind contributions provided by corporations, commercial vendors, and individual contributors totaling \$2,878,882 that lacked the required supporting documentation. The Audit staff recommends that CFC obtain and provide the required in-kind records. (For more detail, see p. 4.)

Finding 2. Disclosure of Disbursements

The Audit staff identified 43 disbursements totaling \$12,580,995 that were either missing or did not adequately provide required disclosure information. The Audit staff recommends that CFC amend its reports to correctly disclose these transactions on Schedule B (Itemized Disbursements). (For more detail, see p. 5.)

Part IV

Findings and Recommendations

Finding 1. Recordkeeping for In-Kind Contributions

Summary

The Audit staff identified 23 in-kind contributions provided by corporations, commercial vendors, and individual contributors totaling \$2,878,882 that lacked the required supporting documentation. The Audit staff recommends that CFC obtain and provide the required in-kind records.

Legal Standard

- A. Receipts and disbursements of municipal funds.** Municipal funds may accept goods or services from commercial vendors for convention uses under the same terms and conditions (including reporting requirements) set forth at 11 CFR 9008.9 for convention committees. Businesses (including banks), labor organizations, and other organizations and individuals may donate funds or make in-kind donations to a municipal fund to pay for expenses listed in 11 CFR 9008.52(b). 11 CFR §9008.53.
- B. Recordkeeping for goods and services from commercial vendors for promotional consideration.** Commercial vendors may sell, lease, rent or provide their goods or services to the national committee with respect to a presidential nominating convention at reduced or discounted rates, or at no charge. The convention committee shall maintain documentation showing:
- the goods or services provided;
 - the date(s) on which the goods or services were provided;
 - the terms and conditions of the arrangement; and
 - what promotional consideration was provided. 11 CFR §9008.9(b)(4).
- C. Valuation of In-Kind Contributions.** The amount of an in-kind contribution shall be equal to the usual and normal value on the date received. 11 CFR §104.13(a)(1).
- D. Formal Requirements Regarding Reports and Statements.** Each political committee shall maintain records with respect to the matters required to be reported which shall provide in sufficient detail the necessary information and data from which the filed reports may be verified, explained, clarified, and checked for accuracy and completeness. 11 CFR §104.14(b)(1).
- E. Recordkeeping Requirements for Receipts.** The treasurer of a political committee shall keep an account of:
- All contributions received by or on behalf of the committee;

- The name and address of any person who makes a contribution in excess of \$50, together with the date and amount of the contribution; and
- The occupation and name of employer of any individual whose contributions aggregate more than \$200 during a calendar year, together with the date and amount of any such contributions. 11 CFR §102.9(a).

F. Preserving Documents. Committees must preserve these records for 3 years after a report is filed. 11 CFR §102.9(c).

Facts and Analysis

A. Facts

The Audit staff identified 23 in-kind contributions totaling \$2,878,882 that lacked the required supporting documentation. In-kind contributions consisted of goods and services provided by commercial vendors, corporations, and individuals. Approximately half of the in-kind contributions totaling \$1,557,053 originated from one corporation.

The only documentation available for these in-kind contributions was the receipt and disbursement databases from which the disclosure reports were produced. Records were not available showing the dates the goods or services were provided, terms and conditions of the arrangements and the promotional consideration provided. The Audit staff asked CFC representatives for additional documentation. CFC stated it was available and would be provided, but no additional documentation was sent.

B. Preliminary Audit Report & Audit Division Recommendation

At the exit conference, the Audit staff discussed and provided a list of in-kind contributions for which CFC had not provided supporting documentation. CFC representatives acknowledged the missing support for in-kind contributions and stated they would locate and provide the required documentation.

The Audit staff recommends that, within 60 calendar days of the service of this report, the CFC obtain and provide documentation to support the in-kind contributions.

Finding 2. Disclosure of Disbursements

Summary

The Audit staff identified 43 disbursements totaling \$12,580,995 that were either missing or did not adequately provide required disclosure information. The Audit staff recommends that CFC amend its reports to correctly disclose these transactions on Schedule B (Itemized Disbursements).

Legal Standard

A. Reporting Expenditures. When expenditures to the same person exceed \$200 in a calendar year, the committee must report the:

- Amount;

- Date when the expenditures were made;
- Name and address of the payee; and
- Purpose (a brief description of why the disbursement was made- see below).
2 U.S.C. §434(b)(5)(A) and 11 CFR §104.3(b)(3)(i).

B. Reporting Credit Card Transactions. A committee must itemize a payment to a credit card company if the payment exceeds the \$200 aggregate threshold for itemization. The committee must also itemize, as a memo entry, any specific transaction charged on a credit card if the payment to the actual vendor exceeds the \$200 threshold. The memo entry must include the name and address of the vendor, the purpose of the disbursement, and the amount of the disbursement. 11 CFR §102.9(b)(2) and 104.9.

C. Reporting Reimbursements to Individuals. When an individual who is not acting as a vendor advances his or her personal funds (or uses a personal credit card) to pay for goods or services on behalf of a political committee, the reimbursement must be reported as follows:

- **Nontravel Advances.** Report the individual as payee, and report the payments aggregating over \$200 to any one vendor as memo entries on Schedule B; and
- **Travel and Subsistence Advances.** If the total amount reimbursed is \$500 or less, the committee should report the individual as payee. If the total amount exceeds \$500 and payments to any one vendor used for the expenses total over \$200 for the calendar year, report the individual as payee, and report the payments aggregating over \$200 to any one vendor as memo entries on Schedule B. Each memo entry must include the name and address of the vendor, as well as the date, amount and purpose of the payment. 11 CFR 104.3(b)(3)(i) and 104.9.

Facts and Analysis

A. Facts

The Audit staff identified 43 disbursements totaling \$12,580,995 that were missing or did not adequately provide required disclosure information. The majority of disclosure errors, totaling \$12,319,532, involved inadequate purposes disclosed for payments to a single vendor. Additional information is provided in the table below.

Description	Number of Transactions	Dollar Value
Payments to corporations or other entities with inadequate or with no stated purpose disclosed.	38	\$12,490,987
Payment with an incomplete address disclosed.	1	\$48,365
Credit card payment with no memo entries disclosing payments made to the vendor.	1	\$28,487
Staff reimbursements with inadequate purposes and no memo entries disclosing payments made to the ultimate vendor.	3	\$13,156
	Total	\$12,580,995

B. Preliminary Audit Report & Audit Division Recommendation

At the exit conference, the Audit staff discussed the missing or inadequate disclosure items with CFC representatives and provided a schedule detailing these items. CFC representatives stated they would amend their reports in response to the Preliminary Audit Report.

The Audit staff recommends that, within 60 calendar days of the service of this report, the CFC amend its reports to correctly disclose these transactions on Schedule B (Itemized Disbursements).