



Interim Audit Report of the Audit Division on the Democratic Party of Wisconsin (January 1, 2011 - December 31, 2012)

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 Committee (p. 2)

The Democratic Party of Wisconsin is a state party committee headquartered in Madison, Wisconsin. For more information, see the chart on the Committee Organization, p. 2.

Financial Activity (p. 2)

• Receipts	
○ Contributions from Individuals	\$ 6,744,785
○ Contributions from Political Committees	2,692,509
○ Transfers from Affiliated and Other Political Committees	8,676,624
○ Transfers from Non-federal Accounts	1,400,151
○ Other Receipts	484,290
Total Receipts	\$ 19,998,359
• Disbursements	
○ Operating Expenditures	\$ 11,536,529
○ Contributions to Other Political Committees	25,500
○ Transfers to Affiliated and Other Political Committees	51,261
○ Federal Election Activity	7,991,072
○ Other Disbursements	159,088
Total Disbursements	\$ 19,763,450

Findings and Recommendations (p. 3)

- Misstatement of Financial Activity (Finding 1)
- Recordkeeping for Employees (Finding 2)

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 the Democratic Party of Wisconsin (DPW), 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 completeness of records; and
6. other committee operations necessary to the review.

Commission Guidance

Request for Early Commission Consideration of a Legal Question

Pursuant to the Commission's "Policy Statement Establishing a Program for Requesting Consideration of Legal Questions by the Commission," several state party committees unaffiliated with DPW requested early consideration of a legal question raised during audits covering the 2010 election cycle. Specifically, the Commission addressed whether monthly time logs under 11 CFR §106.7(d)(1) were required for employees paid with 100 percent federal funds.

The Commission concluded, by a vote of 5-1, that 11 CFR §106.7(d)(1) does require committees to keep a monthly log for employees paid exclusively with federal funds. Exercising its prosecutorial discretion, however, the Commission decided it will 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 DPW representatives of the payroll log requirement and of the Commission's decision not to pursue recordkeeping violations for failure to keep payroll logs for salaries paid and correctly reported as 100 percent federal. This audit report does not include any findings or recommendations with respect to DPW employees paid with 100 percent federal funds and reported as such.

Part II

Overview of Committee

Committee Organization

Important Dates	
• Date of Registration	April 21, 1975
• Audit Coverage	January 1, 2011 - December 31, 2012
Headquarters	Madison, Wisconsin
Bank Information	
• Bank Depositories	Two
• Bank Accounts	Twelve Federal, Two Non-federal
Treasurer	
• Treasurer When Audit Was Conducted	Michael F. Childers
• Treasurer During Period Covered by Audit	Michael F. Childers
Management Information	
• Attended Commission Campaign Finance Seminar	Yes
• Who Handled Accounting and Recordkeeping Tasks	Paid Staff

Overview of Financial Activity (Audited Amounts)

Cash-on-hand @ January 1, 2011	\$ 53,631
Receipts	
○ Contributions from Individuals	6,744,785
○ Contributions from Political Committees	2,692,509
○ Transfers from Affiliated and Other Political Committees	8,676,624
○ Transfers from Non-federal Accounts	1,400,151
○ Other Receipts	484,290
Total Receipts	\$ 19,998,359
Disbursements	
○ Operating Expenditures	11,536,529
○ Contributions to Other Political Committees	25,500
○ Transfers to Affiliated and Other Political Committees	51,261
○ Federal Election Activity	7,991,072
○ Other Disbursements	159,088
Total Disbursements	\$ 19,763,450
Cash-on-hand @ December 31, 2012	\$ 288,540

Part III

Summaries

Findings and Recommendations

Finding 1. Misstatement of Financial Activity

During audit fieldwork, a comparison of DPW's reported financial activity with bank records revealed a misstatement of receipts and disbursements for 2011 and 2012. For 2011, DPW understated its receipts by \$169,196 and its disbursements by \$184,702. In 2012, DPW overstated its receipts by \$402,707 and its disbursements by \$381,326. The Audit staff recommends that DPW amend its disclosure reports to correct the misstatements. (For more detail, see p. 4.)

Finding 2. Recordkeeping for Employees

During audit fieldwork, the Audit staff determined that DPW did not maintain any monthly payroll logs, as required, to document the percentage of time each employee spent in connection with a federal election. For 2011 and 2012, the Audit staff identified payments to DPW employees totaling \$3,627,262, for which DPW did not maintain monthly payroll logs. This consisted of \$2,192,554, for which payroll was allocated with federal and non-federal funds, and \$1,434,708, for which payroll was exclusively non-federal. For DPW employees paid with an allocation of federal and non-federal funds or exclusively non-federal funds, the Audit staff recommends that DPW provide monthly payroll logs that indicate the time spent in connection with a federal election. Absent the provision of monthly time logs, the Audit staff recommends that DPW implement a plan to maintain such monthly payroll logs in the future. (For more detail, see p. 7.)

Part IV

Findings and Recommendations

Finding 1. Misstatement of Financial Activity

Summary

During audit fieldwork, a comparison of DPW's reported financial activity with bank records revealed a misstatement of receipts and disbursements for 2011 and 2012. For 2011, DPW understated its receipts by \$169,196 and its disbursements by \$184,702. In 2012, DPW overstated its receipts by \$402,707 and its disbursements by \$381,326. The Audit staff recommends that DPW amend its disclosure reports to correct the misstatements.

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 audit fieldwork, the Audit staff reconciled DPW's reported financial activity with its bank records for 2011 and 2012. The reconciliation determined that DPW misstated receipts and disbursements for 2011 and 2012. The following charts outline the discrepancies between DPW's disclosure reports and its bank records, and the succeeding paragraphs explain why the discrepancies occurred.

2011 Committee Activity			
	Reported	Bank Records	Discrepancy
Beginning Cash Balance @ January 1, 2011	\$56,862	\$53,631	\$3,231 Overstated
Receipts	\$3,758,853	\$3,928,049	\$169,196 Understated
Disbursements	\$3,497,621	\$3,682,323	\$184,702 Understated
Ending Cash Balance @ December 31, 2011	\$316,089 ²	\$299,357	\$16,732 Overstated

² DPW miscalculated its ending cash balance. It should be \$318,094 (a difference of \$2,005). Using the correct ending cash balance (\$318,094), the discrepancy is \$18,737.

The beginning cash balance was overstated by \$3,231 and is unexplained, but likely resulted from prior-period discrepancies.

The understatement of receipts resulted from the following:

• Transfers from non-federal accounts, not reported	+	\$35,130
• In-kind contributions, not reported as receipts	+	2,565
• Vendor refund, not reported	+	9,198
• Vendor refunds reported as negatives	+	57,545
• Interest, not reported	+	145
• Political committee and individual contributions, not reported	+	73,851
• Reported refunds and contributions not supported by a credit or deposit	-	9,260
• Unexplained differences	+	<u>22</u>
Net Understatement of Receipts	+	<u>\$169,196</u>

The understatement of disbursements resulted from the following:

• In-kind contributions, not reported as disbursements	+	\$2,565
• Vendor refunds reported as negatives ³	+	57,545
• Transfers to non-federal accounts, not reported	+	15,119
• Disbursements and fees, not reported	+	111,793
• Reported disbursements not supported by a check or debit	-	7,317
• Vendor fees, not reported	+	4,451
• Unexplained differences	+	<u>546</u>
Net Understatement of Disbursements	+	<u>\$184,702</u>

The \$16,732 overstatement of the ending cash balance resulted from the misstatements described above, as well as from a \$2,005 mathematical discrepancy in calculating the ending cash balance.

2012 Committee Activity			
	Reported	Bank Records	Discrepancy
Beginning Cash Balance @ January 1, 2012	\$316,089	\$299,357	\$16,732 Overstated
Receipts	\$16,473,017	\$16,070,310	\$402,707 Overstated
Disbursements	\$16,462,453	\$16,081,127	\$381,326 Overstated
Ending Cash Balance @ December 31, 2012	\$290,921 ⁴	\$288,540	\$2,381 Overstated

³ DPW reported vendor refunds as negative entries on Schedule B (Itemized Disbursements). Unless the refund is for allocable federal and non-federal expenditures or allocable federal and Levin expenditures, the refund should be reported as an offset to operating expenditures on Schedule A (Itemized Receipts).

⁴ DPW miscalculated its ending cash balance. It should be \$326,654 (a difference of \$35,733). Using the correct ending cash balance (\$326,654), the discrepancy is \$38,114.

The overstatement of receipts resulted from the following:

• Vendor refunds reported as negatives	+	\$15,312
• In-kind contributions, not reported as receipts	+	9,186
• Contribution from a political committee, not reported	+	1,000
• Transfers from non-federal accounts, not reported	+	22,310
• Transfers from the National Party, not reported	+	31,270
• Incorrectly disclosed transfers from non-federal accounts	-	43,160
• Contributions from joint fundraisers reported twice	-	457,814
• Unexplained differences	+	<u>19,189</u>
Net Overstatement of Receipts	-	<u>\$402,707</u>

Regarding the \$457,814 in contributions from joint fundraisers reported twice, the Audit staff notes the following. In its October monthly reports, DPW correctly reported transfers from two joint fundraiser representatives on Schedule A (Itemized Receipts). DPW also reported the contributions from the individuals received at these joint fundraising events. However, DPW should only have reported the contributions from the individuals as memo entries. As a result of reporting both the transfer of total contributions received from the joint fundraisers and each of the contributions from the individuals, DPW overstated the receipts it received from these joint fundraising events.

The overstatement of disbursements resulted from the following:

• Vendor refunds reported as negatives	+	\$15,312
• Transfers to non-federal accounts, not reported	+	27,179
• In-kind contributions, not reported as disbursements	+	9,186
• Duplicate reported payments to vendor	-	514,424
• Unexplained differences	+	<u>81,421</u>
Net Overstatement of Disbursements	-	<u>\$381,326</u>

Regarding the \$514,424 in duplicate reported payments, the Audit staff notes the reporting errors related to a single vendor that produced mailers for DPW. Also, all three duplicate reported disbursements were reported in the Pre-General report.

The \$2,381 overstatement of the ending cash balance resulted from the misstatements described above, as well as from a \$35,733 mathematical discrepancy in calculating the ending cash balance.

B. Interim Audit Report & Audit Division Recommendation

The Audit staff discussed the misstatement of disbursements with DPW representatives at the exit conference. DPW representatives asked questions for clarification and said they would respond after having time to thoughtfully review each issue. The Audit staff provided work papers detailing the misstatement of receipts to DPW representatives after the exit conference. DPW did not provide a response to either the disbursements or receipts misstatements.

The Audit staff recommends that, within 30 calendar days of service of this report, DPW amend its disclosure reports to correct the misstatements noted above and reconcile the

cash balance on its most recent report to identify any subsequent discrepancies that could affect the recommended adjustments. The Audit staff recommends further that DPW adjust the cash balance as necessary on its most recent report, noting that the adjustment is the result of prior-period audit adjustments.

Finding 2. Recordkeeping for Employees

Summary

During audit fieldwork, the Audit staff determined that DPW did not maintain any monthly payroll logs, as required, to document the percentage of time each employee spent in connection with a federal election. For 2011 and 2012, the Audit staff identified payments to DPW employees totaling \$3,627,262, for which DPW did not maintain monthly payroll logs. This consisted of \$2,192,554, for which payroll was allocated with federal and non-federal funds, and \$1,434,708, for which payroll was exclusively non-federal. For DPW employees paid with an allocation of federal and non-federal funds or exclusively non-federal funds, the Audit staff recommends that DPW provide monthly payroll logs that indicate the time spent in connection with a federal election. Absent the provision of monthly time logs, the Audit staff recommends that DPW implement a plan to maintain such monthly payroll logs in the future.

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 percent 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 percent 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. DPW did not maintain any monthly payroll logs or equivalent records to document the percentage of time each employee spent in connection with a federal election. These logs are required to document the proper allocation of federal and non-federal funds used to pay employee salaries and wages. For 2011 and 2012, DPW did not maintain monthly logs for \$3,627,262 in payroll.⁵ This amount includes payroll paid as follows to DPW employees.

⁵ This total does not include payroll for employees paid with 100 percent federal funds and reported as such (see Part I, Background, Commission Guidance, Request for Early Commission Consideration of a Legal Question, Page 1). Payroll amounts are stated net of taxes and fringe benefits.

- A. Employees reported on Schedule H4 and paid with a mixture of federal and non-federal funds during the same month (totaling \$2,192,554).
- B. Employees reported on Schedule H4 and/or Schedule B and also paid with both a mixture of federal and non-federal funds and exclusively non-federal funds during the same month (totaling \$28,972); and
- C. Employees paid exclusively with non-federal funds in a given month and not reported by DPW (totaling \$1,405,736).

B. Interim Audit Report & Audit Division Recommendation

The Audit staff discussed the recordkeeping requirement with DPW representatives during the audit fieldwork and at the exit conference. DPW representatives asked questions for clarification and said they would respond after having time to thoughtfully review each issue. Subsequently, DPW representatives stated that payroll logs had not been identified nor other evidence that they were maintained. However, DPW provided a statement contending that other information confirmed the basis on which employees were paid. DPW representatives supported this statement by providing exhibits with a basic job description for the employees and a narrative that stated, in part,

“Beginning in February, 2011 and continuing through the summer of 2012, Wisconsin held multiple elections in connection with various recalls of state-level elected officials. Recall elections for nine Wisconsin state senators were held during the summer of 2011. Recall elections for the Governor, Lieutenant Governor and four additional state senators were held during the spring and summer of 2012. Throughout 2011 and through the summer of 2012, the Committee and its staff were engrossed in these nonfederal elections. Employees directly involved in supporting nonfederal candidates performed no work in connection with federal elections, while other employees were paid entirely with federal funds.”

In addition, DPW submitted documentation identifying non-federal and federal election dates and events for both years 2011 and 2012, stating, “...as a result of these events, the Committee hired staff to work exclusively in connection with various nonfederal recall elections.”

The statement and exhibits provided by DPW is not sufficient evidence and does not resolve the recordkeeping finding because it does not document the time an employee spent in connection with a federal election and the documents were provided after notification of the audit. In addition, some of the employees DPW stated performed no work in connection with federal elections were actually paid with federal funds at some point during the audit cycle.⁶

As such, the Audit staff recommends that, within 30 calendar days of service of this report, DPW:

⁶ Of the \$1,434,708 for employees paid with 100 percent non-federal funds (categories B and C above), 75 employees totaling \$669,027 were also paid with federal funds at some point during the audit cycle. The remaining 100 employees totaling \$765,681 were paid with only 100 percent non-federal funds during the audit cycle. This amount is already included in the category C total above.

- **provide evidence that it maintained monthly time logs to document the percentage of time an employee spent in connection with a federal election; or**
- **implement a plan to maintain monthly payroll logs in the future.**