

20L-04

REPORTS ANALYSIS DIVISION REFERRAL

TO

OFFICE OF GENERAL COUNSEL

DATE: February 27, 2020

ANALYST: Chris Jones

I. COMMITTEE:

Steve Chabot for Congress
C00301838
Natalie Baur, Treasurer
(9/16/19 - Present)
James Schwartz Sr., Treasurer¹
(1/30/11 - 9/15/19)
9856 Archer Lane
Dublin, OH 43017

II. RELEVANT STATUTE:

52 U.S.C. § 30104(b)
11 CFR § 104.3(a) and (b)

III. BACKGROUND:

A. Mathematical Discrepancies (Beginning/Ending Cash-on-Hand Discrepancy)

Steve Chabot for Congress (“the Committee”) filed its 2019 July Quarterly Report disclosing a cash-on-hand balance at the close of the reporting period as \$380,586.13. The Committee subsequently filed its 2019 October Quarterly Report which disclosed the cash-on-hand balance at the beginning of the reporting period as \$75,492.90, a \$305,093.23 discrepancy (Attachment 1).

On July 15, 2019, the Committee filed its 2019 July Quarterly Report covering the period from April 1, 2019 through June 30, 2019. The report disclosed the cash-on-hand balance at the end of the reporting period as \$380,586.13 on Line 8 (Cash on Hand at Close of Reporting Period) of the Summary Page (Image 201907159151242593).

¹ Although James Schwartz Sr. was listed as the Committee’s treasurer on the public record, he released a statement to the press stating that he “never served the campaign in any official capacity, including as treasurer, at any time.” <https://local12.com/news/local/chabot-campaign-aide-goes-silent-amid-investigation>

On October 11, 2019 the Reports Analysis Division (RAD) Analyst spoke with Natalie Bauer, the Committee's Treasurer, who stated that she was recently hired due to the previous Treasurer's resignation. She completed an audit of the Committee's activity due to the former Treasurer's embezzlement and wanted to make a cash-on-hand adjustment on the 2019 October Quarterly Report.² She said the adjustment would be based on her current estimate, although she anticipates that the figures might change in the future. The Analyst advised her to file the report with the adjustment and use memo text to explain that the adjusted figure was an estimate and could change as more information becomes available (Attachment 5).

On October 15, 2019, the Committee filed its 2019 October Quarterly Report covering the period from July 1, 2019 through September 30, 2019. The report disclosed a beginning cash-on-hand balance of \$75,492.90 on Line 23 (Cash on Hand at Beginning of Reporting Period) of the Detailed Summary Page, resulting in a cash-on-hand balance discrepancy of \$305,093.23 when compared to the cash-on-hand balance at the close of the 2019 July Quarterly reporting period (Image 201910159164679406). The Committee included memo text stating, in part:

“Due to an internal audit after the discovery of misappropriated funds, the beginning cash on hand is an estimate based upon the information the committee has at the time of this filing. The cash adjustments may change in the future depending on additional information that may present itself” (Image 201910159164679407).

On December 9, 2019, a Request for Additional Information (“RFAI”) was sent to the Committee referencing the 2019 October Quarterly Report. Among other items, the RFAI asked for clarification regarding the cash-on-hand discrepancy between the 2019 July Quarterly and 2019 October Quarterly Reports (Image 201912090300052698).

On January 10, 2020, the Committee filed an FEC Form 99 (Miscellaneous Electronic Submission) in response to the RFAI. It stated, in part:

“[T]he Committee recently discovered the misappropriation of Committee funds and is working through an internal audit of its financial records so that it can correct the public record. The Committee takes its disclosure obligations very seriously, and once the internal audit is complete, the Committee will be positioned to work with RAD to amend the Report and all other affected disclosure reports, which will correct the cash on hand” (Image 202001109167141458).

B. Mathematical Discrepancies (Election Cycle-to-Date Discrepancies)

² The FEC was subsequently informed that the Committee's campaign manager, James Schwartz Jr., embezzled the Committee's funds and not the Committee's former Treasurer on the record, James Schwartz Sr.

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The Committee disclosed incorrect election cycle-to-date totals on the Amended 2019 April Quarterly Report, 2019 July Quarterly Report and 2019 October Quarterly Report totaling \$925,784.92 (Attachment 2).

On April 15, 2019, the Committee filed the original 2019 April Quarterly Report covering the period from January 1, 2019 through March 31, 2019 (Image 201904159146397506).

On May 6, 2019, the Committee filed an Amended 2019 April Quarterly Report that disclosed Column B (Election Cycle-to-Date) discrepancies totaling \$238,511.72 on Line 11(a)(iii) (Total of Contributions from Individuals) of the Detailed Summary Page (Image 201905069149632046, Attachment 2).

On July 15, 2019, the Committee filed the 2019 July Quarterly Report covering the period from April 1, 2019 through June 30, 2019. The report disclosed Column B discrepancies totaling \$232,811.72 on Line 11(a)(iii) of the Detailed Summary Page (Image 201907159151242594, Attachment 2).

On August 27, 2019, an RFAI was sent to the Committee, referencing the Amended 2019 April Quarterly Report, received May 6, 2019. Among other items, the RFAI requested clarification regarding the incorrect Column B figures disclosed in the amended report (Image 201908270300047026).³

On October 15, 2019, the Committee filed the 2019 October Quarterly Report covering the period from July 1, 2019 through September 30, 2019. The report disclosed Column B discrepancies totaling \$454,461.48 on Lines 12 (Transfers from Other Authorized Committees), 17 (Operating Expenditures) and 21 (Other Disbursements) of the Detailed Summary Pages (Images 201910159164679405-06, Attachment 2).

On December 9, 2019, an RFAI was sent to the Committee referencing the 2019 October Quarterly Report. Among other items, the RFAI requested clarification regarding the incorrect Column B figures disclosed in the report (Image 201912090300052698).⁴

On January 1, 2020, an RFAI was sent to the Committee, referencing the 2019 July Quarterly Report. The RFAI requested clarification regarding the incorrect Column B figures disclosed in the report (Image 202001010300053167).⁵

On January 10, 2020, the Committee filed an FEC Form 99 in response to the RFAI sent on the 2019 July Quarterly Report. It stated, in part:

“The Committee recently discovered the misappropriation of Committee funds and is working through an internal audit of its financial records so

³ The RFAI cites all line numbers that have discrepancies, while this referral and the attachment only disclose the line numbers where a discrepancy originates.

⁴ See footnote 3.

⁵ See footnote 3.

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that it can correct the public record. The Committee takes its disclosure obligations very seriously, and once the internal audit is complete, the Committee will be positioned to work with RAD to amend the Report and all other affected disclosure reports, which will correct the issues raised in the Commission's letter” (Image 202001109167141466).

On the same day, the Committee filed an FEC Form 99 in response to the RFAI sent on the 2019 October Quarterly Report. It stated, in part:

“[T]he Committee recently discovered the misappropriation of Committee funds and is working through an internal audit of its financial records so that it can correct the public record. The Committee takes its disclosure obligations very seriously, and once the internal audit is complete, the Committee will be positioned to work with RAD to amend the Report and all other affected disclosure reports, which will correct the ... column B totals ...” (Image 202001109167141458).

C. Failure to Provide Supporting Schedules (Failure to Disclose All Financial Activity)

The Committee amended its 2019 April Quarterly Report to disclose additional receipts of \$123,635.72 that were not included in the original report (Attachment 3).

On April 15, 2019, the Committee filed the original 2019 April Quarterly Report covering the period from January 1, 2019 through March 31, 2019. The report disclosed \$108,250.00 in receipts on Line 11(a)(i) (Itemized Contributions from Individuals) and \$6,626.00 in receipts on Line 11(a)(ii) (Unitemized Contributions from Individuals) of the Detailed Summary Page (Image 201904159146397508, Attachment 3)

On May 6, 2019, the Committee filed an Amended 2019 April Quarterly Report that disclosed \$230,187.32 on Line 11(a)(i) and \$8,324.40 on Line 11(a)(ii) of the Detailed Summary Page, a total increase of \$123,635.72 from the original report (Image 201905069149632046, Attachment 3).

On August 27, 2019, an RFAI was sent to the Committee, referencing the Amended 2019 April Quarterly Report, received May 6, 2019. Among other items, the RFAI requested clarification regarding the substantial increase in receipts disclosed in the amended report⁶ (Image 201908270300047026).

D. Failure to Properly Itemize Disbursements (Disclosure of Inadequate Purposes)

The Committee disclosed seven (7) inadequate purposes for disbursements included on its 2019 October Quarterly Report totaling \$57,004.50 (Attachment 4).

⁶ The RFAI cited an increase of \$123,625.72 on Line 11(a)(iii) (Total Contributions from Individuals) of the Detailed Summary Page.

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On October 15, 2019, the Committee filed its 2019 October Quarterly Report covering the period from July 1, 2019 through September 30, 2019. Schedule B supporting Line 17 (Operating Expenditures) of the Detailed Summary Page disclosed seven (7) disbursements with inadequate purposes totaling \$57,004.50 (Images 201910159164679521-36, Attachment 4). The Committee included memo text stating, in part:

“Due to an internal audit after the discovery of misappropriated funds a number of disbursements list the purpose as unknown. The purpose of those can not be determined until the completion of the investigation of the former Treasurer”⁷ (Image 201910159164679407).

On December 9, 2019, an RFAI was sent to the Committee referencing the 2019 October Quarterly Report. Among other items, the RFAI asked for clarification regarding the inadequate purposes of disbursement disclosed on Schedule B of the report (Image 201912090300052698).

On December 11, 2019, the RAD Analyst spoke to Ms. Bauer as well as Stewart Crossland and Megan Newton, attorneys representing the Committee, about the ongoing issues resulting from the former Treasurer’s embezzlement of funds in the 2018 and 2020 election cycles⁸. They asked how to respond to the RFAIs dealing with increased activity, disbursement purposes and Column B figures since the Committee did not have the accurate information to amend the reports. The Analyst advised them to file a response on the public record and explain why the issues could not be corrected. The Analyst said that some issues may be referred to other Commission office for further action (Attachment 5).

On January 10, 2020, the Committee filed an FEC Form 99 in response to the RFAI. It stated, in part:

“[T]he Committee recently discovered the misappropriation of Committee funds and is working through an internal audit of its financial records so that it can correct the public record. The Committee takes its disclosure obligations very seriously, and once the internal audit is complete, the Committee will be positioned to work with RAD to amend the Report and ...provide further descriptions for any unknown expenses that are suspected to be illegitimate” (Image 202001109167141458).

To date, no further communications have been received from the Committee regarding these matters.

⁷ The FEC was subsequently informed that the Committee’s campaign manager, James Schwartz Jr., embezzled the Committee’s funds and not the Committee’s former Treasurer on the record, James Schwartz Sr.

⁸ See footnote 7.

Steve Chabot for Congress (C00301838)Overview of Election Cycle-to-Date Discrepancies

Report	Discrepancy
Amended 2019 April Quarterly, received 5/6/2019	\$238,511.72
2019 July Quarterly	\$232,811.72
2019 October Quarterly	\$454,461.48
Total:	\$925,784.92

A. Election Cycle-to-Date Discrepancies on Amended 2019 April Quarterly Report

Report Line	2018 Year-End Report, Column B (Image 201901319145440216)	Amended 2019 April Quarterly Report, Column A (Image 201905069149632046)	Amended 2019 April Quarterly Report, Column B (Image 201905069149632046)	Amended 2019 April Quarterly Report, Column B Calculated	Discrepancy
11(a)(iii)	\$5,700.00	\$238,511.72	\$5,700.00	\$244,211.72	\$238,511.72
				Total:	\$238,511.72

B. Election Cycle-to-Date Discrepancies on 2019 July Quarterly Report

Report Line	Amended 2019 April Quarterly Report, Column B (Image 201905069149632046)	2019 July Quarterly Report, Column A (Image 201907159151242594)	2019 July Quarterly Report, Column B (Image 201907159151242594)	2019 July Quarterly Report, Column B Calculated	Discrepancy
11(a)(iii)	\$5,700.00	\$99,702.79	\$338,214.51	\$105,402.79	\$232,811.72
				Total:	\$232,811.72

C. Election Cycle-to-Date Discrepancies on 2019 October Quarterly Report

Report Line	2019 July Quarterly Report, Column B (Image 201907159151242594-95)	2019 October Quarterly Report, Column A (Image 201910159164679405-06)	2019 October Quarterly Report, Column B (Image 201910159164679405-06)	2019 October Quarterly Report, Column B Calculated	Discrepancy
12	\$0.00	\$8,911.17	\$117,690.56	\$8,911.17	\$108,779.39
17	\$178,125.29	\$91,569.02	\$614,951.40	\$269,694.31	\$345,257.09
21	\$2,689.44	\$315.00	\$3,429.44	\$3,004.44	\$425.00
				Total:	\$454,461.48

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2019 April Quarterly Report/Amended 2019 April Quarterly Report

Overview of Additional Receipts

Report Line	Original 2019 April Quarterly Report (Image 201904159146397508)	Amended 2019 April Quarterly Report, Received 5/6/2019 (Image 201905069149632046)	Variance Amount
Line 11(a)(i): Itemized Contributions from Individuals	\$108,250.00	\$230,187.32	\$121,937.32
Line 11(a)(ii): Unitemized Contributions from Individuals	\$6,626.00	\$8,324.40	\$1,698.40
		Total Variance:	\$123,635.72

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2019 October Quarterly Report

Inadequate Purposes of Disbursement

Report Line	Payee Name	Date	Amount	Purpose
17	The Foundation Square Group	7/15/2019	\$7,500.00	Unknown
17	The Foundation Square Group	7/16/2019	\$9,500.00	Unknown
17	Prime Media	7/19/2019	\$4,500.00	Unknown
17	The Foundation Square Group	7/28/2019	\$23,460.00	Unknown
17	The Foundation Square Group	8/5/2019	\$24.50	Unknown
17	Prime Media	8/7/2019	\$20.00	Unknown
17	The Fountain Square Group	8/26/2019	\$12,000.00	Unknown
Total:			\$57,004.50	