



FEDERAL ELECTION COMMISSION
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MEMORANDUM

January 4, 2012

TO: The Commission

THROUGH: Alec Palmer *AP*
Staff Director

FROM: Patricia Carmona *PC*
Chief Compliance Officer

Lynn M. Fraser *LMF*
Director, ADR Office

BY: Krista J. Roche *KJR*
Assistant Director, ADR Office

SUBJECT: ADR 563 Tennessee Republican Party Federal Election Account and Frank Colvett, Jr., Treasurer, Recommendation to Approve Settlement Agreement

RESOLUTION TERMS: (a) Send a representative to an FEC Conference once annually for two years; (b) review Committee procedures and update and implement a revised compliance operations manual which includes internal controls consistent with the Commission's Internal Controls and Political Committees Guidance (2007) and a process to track receipt of and response to communications with the Commission; (c) provide cross-training in FECA reporting requirements and Committee procedures to an additional Committee staff member; (d) file an annual certification of Committee's audit of reports and banking records for calendar years 2011 and 2012; and (e) pay a civil penalty of \$30,000.

Attached for your review is a signed negotiated ADR Settlement Agreement pertaining to ADR 563 (A-07-05). The ADR Office received this referral on February 24, 2011.

Recommendation to Approve
Settlement Agreement
ADR 563 (A07-05)
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SUMMARY: The Audit Division referred Respondents for violations occurring in the 2005-2006 election cycle, specifically Findings 1 and 2 of the Final Audit Report of the Commission approved on January 20, 2011. Finding 1 concludes that Respondents underreported receipts by \$2,227,811 and disbursements by \$1,440,129 for calendar year 2006, according to amended reports. It is also concluded that Respondents misstated receipts, disbursements, and cash on hand based on a reconciliation of amended reports to the Committee's bank records. For 2005, the Committee overstated beginning cash on hand by \$33,780, understated receipts by \$117,371, understated disbursements by \$77,948, and understated ending cash on hand by \$5,643. In 2006, receipts were understated by \$459,963, disbursements understated by \$159,582, and ending cash on hand was understated by \$294,475. Finding 2 concludes that Respondents accepted \$114,395 in contributions from unregistered political organizations that may have been made with impermissible funds.

The Committee amended its reports in response to the Interim Audit Report to materially correct the misstatements detailed in Finding 1 described above. In addition, Respondents have refunded all but \$100 of the contributions questioned in Finding 2. Respondents contend that since the audit, substantial changes have been made by the Committee, including attendance at an FEC Conference each year since 2007, hiring of a compliance specialist, hiring a staff member whose sole role is to enter receipts, discontinuing the contract for the external vendor who previously posted receipts, additional procedural changes to the methods by which receipts and disbursements are processed, and monthly reconciliations of the reported data to both the bank statements and accounting software.

RECOMMENDATIONS:

1. Approve the attached settlement agreement of Tennessee Republican Party and Frank Colvett, Jr., Treasurer.
2. Approve the appropriate letters.
3. Close the file on this matter.

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