



THE FEDERAL ELECTION COMMISSION
Washington, DC 20463

March 19, 2013

MEMORANDUM

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SUBJECT: Randy Hultgren for Congress (A11-01) – Referral Matter

On March 4, 2013, the Commission approved the Final Audit Report of the Commission (FARC) on Randy Hultgren for Congress. The report was released to the public on March 13, 2013. In accordance with the Materiality Thresholds for Authorized Committees, the FARC includes a matter that meets the criteria for referral to the Office of Alternative Dispute Resolution.

Misstatement of Financial Activity – only 2010 Receipts meets the criteria for referral.

All workpapers and related documentation are available for review in the Audit Division. Should you have any questions regarding this matter, please contact Tesfai Asmamaw or Kendrick Smith at 694-1200.

Attachment: Finding – Misstatement of Financial Activity

cc: Reports Analysis Division

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Part IV

Commission Finding

Misstatement of Financial Activity

Summary

During audit fieldwork, a comparison of RHC's reported financial activity with its bank records revealed a misstatement of receipts and disbursements for 2009 and 2010, as well as, ending cash-on-hand for 2010. For 2009, RHC understated receipts by \$9,440 and disbursements by \$7,911, respectively. In 2010, RHC understated receipts by \$83,278, disbursements by \$58,694, and ending cash-on-hand by \$26,113. In response to the Interim Audit Report recommendation, RHC amended its disclosure reports and materially corrected the misstatements.

The Commission approved a finding that RHC misstated its financial activity for calendar years 2009 and 2010.

Legal Standard

A. 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 (to include the total amount of loans made by or guaranteed by the Candidate);
- 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).

B. Itemizing Loans. Each person who makes a loan to the political committee during the reporting period must be disclosed with the following information:

- Identification of any endorser or guarantor of the loan;
- The date the loan was made; and
- The amount of the loan. 11 CFR §104.3(a)(4)(iv).

C. Schedule C. On a Schedule C (Loans), both the original loan and payments to reduce principal must be reported each reporting period until the loan is repaid. The committee need only list the Candidate as the source of the loan. Also, the type of loan the Candidate receives (e.g. bank loan, brokerage account, credit card, home equity line of credit) must be disclosed in either the first box for endorsers and guarantors with a notation for loan type or in the box for "Loan Source" after the Candidate's name. 11 CFR §§104.3(d) and 104.11.

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Facts and Analysis

A. Facts

As part of audit fieldwork, the Audit staff reconciled RHC's reported activity with its bank records for 2009 and 2010. The following charts outline the discrepancies for cash-on-hand, receipts, and disbursements. Succeeding paragraphs address the reasons for the misstatements.

2009 Campaign Activity			
	Reported	Bank Records	Discrepancy
Beginning Cash-on-Hand @ September 22, 2009	\$0	\$0	\$0
Receipts	\$167,171	\$176,611	\$9,440 Understated
Disbursements	\$130,946	\$138,857	\$7,911 Understated
Ending Cash-on-Hand @ December 31, 2009	\$36,225	\$37,754	\$1,529 Understated

The understatement of receipts resulted from the following:

• Loans from the Candidate not reported	\$ 10,085
• Unexplained difference	(645)
Net Understatement of Receipts	<u>\$ 9,440</u>

The understatement of disbursements resulted from the following:

• Disbursements not reported	\$ 8,200
• Reported disbursements not supported by a check or debit	(453)
• Unexplained difference	164
Net Understatement of Disbursements	<u>\$ 7,911</u>

2010 Campaign Activity			
	Reported	Bank Records	Discrepancy
Beginning Cash-on-Hand @ January 1, 2010	\$36,225	\$37,754	\$1,529 Understated
Receipts	\$1,434,548	\$1,517,826	\$83,278 Understated
Disbursements	\$1,441,632	\$1,500,326	\$58,694 Understated
Ending Cash-on-Hand @ December 31, 2010	\$29,141	\$55,254	\$26,113 Understated

The understatement of receipts resulted from the following:

• Contributions from individuals & PACs not reported	\$ 74,597
• Loans from the Candidate not reported	8,953
• Unexplained difference	<u>(272)</u>
Net Understatement of Receipts	<u>\$ 83,278</u>

The understatement of disbursements resulted from the following:

• Operating expenditures not reported	\$ 70,289
• Reported disbursements not supported by check or debit	(29,942)
• Candidate loan repayments not reported	16,500
• PAC contribution not reported	2,400
• Unexplained difference	<u>(553)</u>
Net Understatement of Disbursements	<u>\$ 58,694</u>

The \$26,113 understatement of the ending cash-on-hand was the result of the misstatements described above.

During the audit period, RHC provided a declaration, signed by the Candidate, attesting to loaning RHC \$43,838. The loans consisted of checks written from the Candidate's personal accounts to RHC and payments the Candidate made directly to vendors for campaign-related expenses. RHC did not report some of the loan activity (as noted above); nor did it correctly disclose some transactions as being in connection with the Candidate loans. The Audit staff noted that RHC fully repaid Candidate loans totaling \$43,838.

B. Interim Audit Report & Audit Division Recommendation

The Audit staff discussed the misstatements for 2009 and 2010 with RHC representatives during the exit conference and provided copies of relevant work papers detailing the errors. A representative said that RHC would take corrective action based on the audit recommendation.

The Interim Audit Report recommended that RHC amend its disclosure reports to correct the misstatements for 2009 and 2010, to include the proper itemization and disclosure of Candidate loans and repayments. In addition, RHC should have amended its most recently filed disclosure report to correct the cash-on-hand balance with an explanation that the change resulted from a prior-period audit adjustment. Further, RHC should have reconciled the cash-on-hand balance of its most recent disclosure report to identify any subsequent discrepancies that may have had an impact on the \$26,113 adjustment recommended.

C. Committee Response to Interim Audit Report

In response to the Interim Audit Report recommendation, RHC filed amended disclosure reports that materially corrected the misstatements.

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D. Draft Final Audit Report

In the Draft Final Audit Report, the Audit staff acknowledged that RHC amended its disclosure reports to materially correct the misstatements for 2009 and 2010. RHC did not file an additional response to the Draft Final Audit Report.

Commission Conclusion

On February 6, 2013, the Commission considered the Audit Division Recommendation Memorandum in which the Audit staff recommended the Commission find that RHC misstated its financial activity for calendar years 2009 and 2010.

The Commission approved the Audit staff's recommendation.

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