

October 30, 2013

MEMORANDUM

TO: Lynn Fraser
Director of Alternative Dispute Resolution

THROUGH: Alec Palmer
Staff Director

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SUBJECT: Mississippi Democratic Party PAC (A11-10) – Referral Matter

On September 18, 2013, the Commission approved the Final Audit Report of the Commission (FARC) on the Mississippi Democratic Party PAC. The report was released to the public on October 29, 2013. In accordance with the Materiality Thresholds for Unauthorized Committees, the FARC includes a matter that meets the criteria for referral to the Office of Alternative Dispute Resolution. Please note that only Section B (Increased Activity) of the finding is referable.

Misstatement of Financial Activity – Increased Activity

All workpapers and related documentation are available for review in the Audit Division. Should you have any questions regarding this matter, please contact Randy Harris or Marty Favin at 694-1200.

Attachment: Finding 1 – Misstatement of Financial Activity

cc: Reports Analysis Division

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Part IV

Commission Findings

Finding 1. Misstatement of Financial Activity

Summary

During audit fieldwork, a comparison of MDP's reported financial activity with its bank records revealed a misstatement of receipts and disbursements for calendar year 2009. In response to the Interim Audit Report recommendation, MDP filed amended reports that materially corrected the misstatements.

In addition, MDP materially understated its receipts by \$221,646 in the reports that it originally filed for 2010. Specifically, MDP's original reports understated receipts by \$221,646 in 2010. MDP did amend its reports prior to the notification of this audit to correct the misstated receipts activity for 2010. In response to the Interim Audit Report recommendation, MDP noted that it has made improvements to its reporting and accounting system to ensure more accurate reporting.

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

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. Misstatement of Financial Activity - 2009

1. Facts

The Audit staff reconciled MDP's reported activity with its bank records and identified a misstatement of receipts and disbursements for calendar year 2009.

The following chart details the discrepancies and succeeding paragraphs explain the reasons for the misstatements.

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MDP overstated the beginning cash balance as of January 1, 2009 by \$34,750 because of prior-period discrepancies.

2009 Activity			
	Reported⁴	Bank Records	Discrepancy
Beginning Cash Balance @ January 1, 2009	\$24,573	(\$10,177)	\$34,750 Overstated
Receipts	\$202,756	\$210,042	\$7,286 Understated
Disbursements	\$174,855	\$199,388	\$24,533 Understated
Ending Cash Balance @ December 31, 2009	\$46,366	\$477	\$45,889 Overstated

The understatement of receipts was the result of the following:

• Receipts not reported	\$ 8,607
• Transfer from the non-federal account not reported	6,803
• Transfer from the non-federal account reported twice	(6,747)
• Over-reported receipts	(1,080)
• Unexplained difference	<u>(297)</u>
Net Understatement of Receipts	<u>\$ 7,286</u>

The understatement of disbursements was the result of the following:

• Disbursements not reported	\$ 25,780
• Disbursements reported but not supported by check or debit	(1,135)
• Unexplained difference	<u>(112)</u>
Net Understatement of Disbursements	<u>\$ 24,533</u>

The \$45,889 overstatement of the ending cash balance was the result of the reporting discrepancies noted above.

2. Interim Audit Report & Audit Division Recommendation

Audit staff and MDP representatives discussed the misstatement of financial activity at the exit conference and the Audit staff provided relevant schedules detailing the transactions. An MDP representative acknowledged the discrepancies in the reports and indicated that corrective amendments would be filed.

The Interim Audit Report recommended that MDP:

- amend its reports to correct the misstatements for 2009; and
- amend its most recently filed report to correct the cash-on-hand balance with an explanation that the change resulted from a prior-period audit adjustment and reconcile the cash balance on its most recent report to identify any

⁴ This column does not total because MDP amended the Ending Cash Balance on its 2008 Year-End Report but did not carry forward this adjustment on subsequent reports.

subsequent discrepancies that may impact the \$45,889 adjustment recommended by the Audit staff.

3. Committee Response to Interim Audit Report

In its response, MDP noted that it amended the 2009 reports and made corresponding amendments to subsequent reports. The Audit staff noted that as a result of these amendments, MDP materially corrected the misstatements.

4. Draft Final Audit Report

The Draft Final Audit Report acknowledged that MDP amended its reports to correct the misstatements.

5. Committee Response to the Draft Final Audit Report

MDP's response to the Draft Final Audit Report provided no additional comments.

B. Misstatement of Financial Activity – Increased Activity

1. Facts

The Audit staff compared the original reports filed with the bank records and discovered a \$228,932 understatement of receipts from January 1, 2009 through December 31, 2010. This amount represents the difference between receipts as originally reported and the amount of receipts per the bank records. This figure also includes the \$7,286 understatement of receipts from 2009 in Section A (Misstatement of Financial Activity – 2009) noted above. The increase in activity in 2010 was largely due to MDP not reporting transfers totaling \$198,597 from the national party committee on its original reports.

2. Interim Audit Report & Audit Division Recommendation

The Audit staff discussed the misstatements for 2009 and 2010 with MDP representatives during the exit conference. The Audit staff recommended that MDP submit any additional information or written comments it considered relevant to the matter.

3. Committee Response to Interim Audit Report

In its response, MDP noted that the increased disclosed activities relate to minor bookkeeping errors that occurred during the 2009 calendar year and that it has made improvements to its reporting and accounting system to ensure more accurate reporting now and in the future.

4. Draft Final Audit Report

The Draft Final Audit Report acknowledged MDP's explanation regarding the increased activity.

5. Committee Response to the Draft Final Audit Report

MDP's response to the Draft Final Audit Report provided no additional comments.

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Commission Conclusion

On August 22, 2013, the Commission considered the Audit Division Recommendation Memorandum in which the Audit staff recommended that the Commission adopt a finding that MDP misstated its financial activity for calendar years 2009 and 2010.

The Commission approved the Audit staff's recommendation.

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