

problems that arise when campaign use volunteers or inexperienced employees for compliance services, such as aggregation errors, late or incomplete reporting, failure to gather documentation for contributions and disbursements, and the inability to resolve common technical issues. As discussed more fully below, the Committee could not have foreseen the scope and depth of Ms. Durkee's malfeasance, particularly given her professional experience and prominent clientele

Beyond Ms. Durkee, the Committee had regular interactions with many of the employees of Durkee & Associates, all of whom appeared to be knowledgeable and equally professional. Ms. Durkee and her staff promptly responded to any Committee inquiries and adequately answered any questions raised by the Committee, whether they related to processing payments, contributions received, or other compliance or accounting issues.²

As a professional treasurer and a vendor whose sole purpose is to provide professional compliance and reporting services, the Committee had every reason to believe that Ms. Durkee and Durkee & Associates complied with all applicable FECA requirements, policies and procedures, including the minimum internal controls for the embezzlement safe harbor. The bank accounts were opened by Ms. Durkee in the name of the Committee and using the Committee's Employer Identification Number. Ms. Durkee had a large and seemingly experienced staff, and the Committee believed that the various functions and responsibilities were sufficiently divided amongst them.

All contributions physically received by the Committee or the Committee's Washington, DC based finance consultants were mailed to Ms. Durkee's office and deposited by Ms. Durkee or her staff. Contributions to the Committee were also routinely sent directly to Ms. Durkee's address, as she was listed as the Treasurer on all FEC-related materials; such contributions were processed and deposited by Ms. Durkee or her staff. While the Committee believed it was notified of all contributions directly received by Durkee & Associates, Ms. Durkee rarely, if ever, provided scanned images of these checks.

Authorized Committee disbursements were also handled almost exclusively by Ms. Durkee and her firm. Ms. Durkee and her staff approved payments for payroll, workers compensation and insurance as an authorized agent. They also made regular payments for worker's compensation, insurance, rent, phone bills, consulting fees (including her own) and other similar monthly and ongoing obligations. Ms. Durkee and her staff approved payments upon request by the Committee for authorized disbursements that were not routine such as contributions to the DCCC and other candidate committees, direct mail projects, and media consulting, and polling services; once the requests were sent to Durkee & Associates, they processed the checks and mailed as directed. Similarly, Ms. Durkee's office handled wire transfers, most commonly for large media buys, upon the specific request of the Committee.

Further, Durkee & Associates provided the Committee with weekly reports on its financial status, including a "Balance Sheet" and "Profit & Loss" analysis that purported to include all contributions raised and disbursements made for the cycle up to and including the

² See examples in Attachment B.

date of the report.³ The Committee closely monitored not only the weekly reports but also specifically authorized payments, including vendor payments.⁴ The Committee had no knowledge of any authorized disbursement that was paid late or not at all. The Committee also reviewed FEC reports, which were consistent with their internal records of authorized receipts and disbursements.

Misappropriation and Embezzlement

As noted above, the exact facts surrounding the embezzlement and malfeasance may never be known by the Committee. However, according to the plea agreement and allegations widely reported by the press, neither this Committee nor any of Ms. Durkee's clients could have imagined a misappropriation scheme that would total \$8.3 million.

Ms. Durkee has pled guilty to commingling funds belonging to her various clients and repeatedly making transfers, withdrawals and deposits between and amongst accounts on which Ms. Durkee had signing authority. A study of available Committee records, as described in detail below, shows the brazen use of the Committee's account and her signatory authorization to move hundreds of thousands of dollars in and out of the Committee's bank account. According to the plea agreement, Ms. Durkee regularly moved money between her client's accounts in an attempt to hide her embezzlement.

Committee Reporting

Because of the timing of Ms. Durkee's arrest, the Committee adjusted its report for the third quarter of 2011 based on the limited amount of information that was available at that time. Since then, the Committee has been able to acquire the available records from Durkee & Associates, which include documentation of a majority of the approved receipts and disbursements from the first quarter of 2007 through the third quarter of 2011. The Committee also obtained printed bank statements from the first quarter of 2007 through the third quarter of 2011.

The total amount of funds embezzled from the Committee appears to be \$322,123. The Committee arrived at this figure by subtracting the amount of cash actually in the bank in September 2011 from the reported cash on hand balance of the second quarter of 2011.

The Committee's newly retained compliance professionals are conducting a thorough analysis of all available Committee records and bank statements from January 2007 to present, including a detailed analysis of recently converted data from one type software database into another. Once this review is complete, the Committee will file a final amendment reconciling the reports to the actual cash on hand. Unless and until more information becomes available, or Ms. Durkee and/or Durkee & Associate are allowed and willing to provide more specifics to

³ See examples in Attachment C, including the weekly report dated September 2, 2011, just one day before Ms. Durkee's arrest.

⁴ See examples in Attachment B.

