



FEDERAL ELECTION COMMISSION  
Washington, DC 20463

November 6, 2014

**MEMORANDUM**

**TO:** Lynn Fraser  
Director of Alternative Dispute Resolution

**FROM:** Thomas Hintermister  
Assistant Staff Director  
Audit Division

Thomas  
Hintermister

Marty Favin  
Audit Manager

Martin L.  
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Lead Auditor

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Date: 2014.11.06 13:00:09 -0500

**SUBJECT:** Democratic Party of Illinois (A11-15) – Referral Matters

On October 23, 2014, the Commission approved the Proposed Final Audit Report on the Democratic Party of Illinois. The report was released to the public on November 5, 2014. In accordance with the Materiality Thresholds for Unauthorized Committees, the Final Audit Report of the Commission includes matters that meet the criteria for referral to the Office of Alternative Dispute Resolution.

Finding – Misstatement of Financial Activity  
Finding – Unreported Levin Fund Activity

All workpapers and related documentation are available for review in the Audit Division. Should you have any questions regarding these matters, please contact Bill Antosz or Marty Favin at 694-1200.

Attachment : Finding – Misstatement of Financial Activity  
Finding – Unreported Levin Fund Activity  
Designation of Counsel

cc: Patricia C. Orrock and Lynn Fraser via e-mail

## Finding 1. Misstatement of Financial Activity

### Summary

During audit fieldwork, a comparison of DPIL's reported financial activity with its bank records revealed a misstatement of receipts and disbursements in calendar year 2010. DPIL understated receipts by \$203,666 and disbursements by \$215,677. The misstatements were mainly the result of unreported transfers from the non-federal accounts and affiliated committees, as well as unreported operating expenditures and transfers to affiliated committees. In response to the Interim Audit Report recommendation, DPIL amended its reports to materially correct the misstatements noted above.

The Commission approved a finding that DPIL misstated its receipts and disbursements for calendar year 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). 52 U.S.C. §30104(b)(1), (2), (3), (4) and (5) (formerly 2 U.S.C. §434(b)(1), (2), (3), (4) and (5)).

### Facts and Analysis

#### A. Facts

As part of audit fieldwork, the Audit staff reconciled DPIL's reported activity with its bank records and identified misstatements of receipts and disbursements for calendar year 2010. The chart below details the discrepancies and succeeding paragraphs explain the reasons for the misstatements.

2010 Activity			
	Reported	Bank Records	Discrepancy
Beginning Cash Balance @ January 1, 2010	\$324,676	\$324,676	\$0
Receipts	\$3,727,446	\$3,931,112	\$203,666 Understated
Disbursements	\$3,697,887	\$3,913,564	\$215,677 Understated
Ending Cash Balance @ December 31, 2010	\$354,235	\$342,224	\$12,011 Overstated

The understatement of receipts was the result of the following:

- Contributions from individuals not reported

\$1,525

• Transfers from non-federal accounts not reported	79,316
• Transfers from an affiliated committee not reported	138,089
• Contributions received via ACTBLUE reported net of processing fees	296
• Reported receipts not supported by deposit or credit	<u>(15,560)</u>
<b>Net Understatement of Receipts</b>	<b><u>\$ 203,666</u></b>

The understatement of disbursements was the result of the following:

• Operating expenditures not reported	\$155,347
• Transfer to an affiliated committee not reported	137,089
• Disbursements not supported by check or debit	(77,607)
• Unreported in-kind contributions	150
• Disbursements incorrectly reported	7
• ACTBLUE processing fees not reported	<u>691</u>
<b>Net Understatement of Disbursements</b>	<b><u>\$ 215,677</u></b>

The \$12,011 overstatement of the ending cash balance resulted from the reporting discrepancies noted above.

#### **B. Interim Audit Report & Audit Division Recommendation**

At the exit conference, the Audit staff provided DPIL representatives with work papers detailing the misstatements of financial activity and discussed the reporting errors that caused the misstatement. A DPIL representative stated that DPIL made the unreported transfer to the affiliated committee in error, and received the unreported transfers from the same affiliated committee in order to correct the original transfer. DPIL was prepared to amend its reports to correct the misstatement.

The Interim Audit Report recommended that DPIL:

- amend its reports to correct the misstatements for 2010 as noted above;
- amend its most recent 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 of its most recent report to identify any subsequent discrepancies that may affect the adjustment recommended by the Audit staff.

#### **C. Committee Response to Interim Audit Report Recommendation**

In response to the Interim Audit Report recommendation, DPIL filed amended reports that materially corrected the misstatement of financial activity. The response also noted that DPIL is reviewing and revising its procedures for reconciling and verifying its reports to ensure that such misstatement errors do not recur in future reporting periods.

#### **D. Draft Final Audit Report**

The Draft Final Audit Report acknowledged that DPIL filed amended reports that materially corrected the misstatement of financial activity.

**E. Committee Response to the Draft Final Audit Report**

DPIL's response to the Draft Final Audit Report provided no additional comments relating to this matter.

**F. Audit Hearing**

This finding was not addressed at the Audit Hearing.

**Commission Conclusion**

On June 26, 2014, the Commission considered the Audit Division Recommendation Memorandum in which the Audit staff recommended the Commission find that DPIL misstated its receipts and disbursements for calendar year 2010.

The Commission approved the Audit staff's recommendation.

11-10-2014-11:11:11 AM

**Finding 3. Unreported Levin Fund Activity**

**Summary**

During audit fieldwork, an analysis of DPIL's Levin fund activity indicated that DPIL raised Levin funds during the period covered by the audit that totaled \$254,774. Of this amount, DPIL did not report Levin funds totaling \$115,274 on its Levin Schedules L (Aggregation Page: Levin Funds) or on its Schedules L-A (Itemized Receipts of Levin Funds). In addition, DPIL incorrectly disclosed a shared federal election activity expenditure in the amount of \$144,375 as a shared operating expenditure. In response to the Interim Audit Report recommendation, DPIL filed amended reports that materially corrected the reporting of Levin activity.

The Commission approved a finding that DPIL did not report Levin funds totaling \$115,274 on its Levin Schedules and incorrectly disclosed a shared federal election activity expenditure in the amount of \$144,375 as a shared operating expenditure.

**Legal Standard**

**A. Reporting.** If a state, district or local party committee's combined annual receipts and disbursements for federal election activity (FEA) total \$5,000 or more during the calendar year, the committee must disclose receipts and disbursements of federal funds and Levin funds used for FEA. 11 CFR §300.36 (b)(2).

**B. Receipt of Levin Funds.** Levin funds expended or disbursed by any state committee must be raised solely by the committee that expends or disburses them. Each donation must be lawful under the laws of the state in which the committee is organized and the funds solicited must not aggregate more than \$10,000 in a calendar year. Consequently, funds from national party committees, other state, district and local committees, and from federal candidates or officeholders, may not be accepted as Levin funds. 11 CFR §300.31.

- C. Contents of Levin Reports.** Each report must disclose:
- the amount of cash-on-hand for Levin funds at the beginning and end of the reporting period;
  - the total amount of Levin fund receipts for the reporting period and the calendar year;
  - the total amount of Levin fund disbursements for the reporting period and the calendar year; and
  - certain transactions that require itemization on Schedule L-A (Itemized Receipts of Levin Funds) or Schedule L-B (Itemized Disbursements of Levin Funds). 11 CFR §300.36 (b)(2).

## **Facts and Analysis**

### **A. Facts**

As part of audit fieldwork, the Audit staff found that DPIL raised Levin funds totaling \$254,774 that it deposited into its non-federal account. It reported Levin funds totaling \$139,500 on its Schedules L-A. DPIL did not report Levin funds totaling \$115,274. In addition, DPIL incorrectly disclosed a shared federal election activity expenditure of \$144,375, of which the Levin share was \$114,056, as a shared operating expenditure.

DPIL did not have a Levin fund bank account for its Levin fund receipts. DPIL representatives explained that DPIL kept all Levin funds raised in its non-federal account in accordance with 11 CFR §300.30(C)(2) and (3). DPIL provided the Audit staff with a reasonable accounting of its Levin fund receipts. A daily cash analysis of DPIL's non-federal accounts demonstrated that DPIL had sufficient Levin funds at the time DPIL transferred the funds to the federal account.

During the period covered by the audit, DPIL reported shared federal election activity expenditures totaling \$180,000. The Levin share of these expenditures was \$139,500. DPIL transferred only \$100,000 to its federal account for the Levin share of the allocable expenditures. Levin funds totaling \$154,774 remain in DPIL's non-federal account.

### **B. Interim Audit Report & Audit Division Recommendation**

At the exit conference, the Audit staff provided DPIL representatives with workpapers that detailed a possible overfunding by DPIL's non-federal account. DPIL representatives responded that DPIL had incorrectly reported a disbursement in the amount of \$144,375 on Schedule H-4 (Shared Federal/Non-Federal Activity) instead of Schedule H-6 (Shared Federal Election Activity), and that it could have used Levin funds to pay the \$114,056 share of the direct mail expenditure. They argued that DPIL had sufficient Levin funds on hand to pay for the non-federal share, and stated that the reports would be amended to correct this matter. The Audit staff concurred that Levin funds could have been transferred to the federal account in regard to this expenditure, and that DPIL did have sufficient Levin funds available to be transferred. Further, by classifying this transaction as such, there no longer would be an overfunding by the non-federal account.

The Interim Audit Report recommended that DPIL amend its reports to disclose the additional Levin receipts in the amount of \$115,274 on Schedules L-A and disclose the expenditure in the amount of \$144,375 as a shared federal election activity expenditure on Schedule H-6.

### **C. Committee Response to Interim Audit Report Recommendation**

In response to the Interim Audit Report recommendation, DPIL filed amended reports that materially corrected the reporting of Levin activity.

### **D. Draft Final Audit Report**

The Draft Final Audit Report acknowledged that DPIL filed amended reports that materially corrected the reporting of Levin activity.

**E. Committee Response to the Draft Final Audit Report**

DPIL's response to the Draft Final Audit Report provided no additional comments relating to this matter.

**F. Audit Hearing**

This finding was not addressed at the Audit Hearing.

**Commission Conclusion**

On June 26, 2014, the Commission considered the Audit Division Recommendation Memorandum in which the Audit staff recommended the Commission find that DPIL did not report Levin funds totaling \$115,274 on its Levin Schedules and incorrectly disclosed a shared federal election activity expenditure in the amount of \$144,375 as a shared operating expenditure.

The Commission approved the Audit staff's recommendation.

11-10-2014 11:00:00 AM



**FEDERAL ELECTION COMMISSION**  
 999 E Street, NW  
 Washington, DC 20463

**STATEMENT OF DESIGNATION OF COUNSEL**  
 Please use one form for each Respondent/Entity/Treasurer.  
 FAX (202) 219-3923

MUR# 2010 Audit

NAME OF COUNSEL: Bryan Spaboda

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FAX (202) 659-9150 Web Address: bspaboda@perkinscoie.com

The above named individual and/or firm is hereby designated as my counsel and is authorized to receive any notifications and other communications from the Commission and to act on my behalf before the Commission.

APR 11 10: 2012  
 Date Michael Kasper  
 Respondent/Agent Signature

Treasurer: Mike Kasper  
 Title (Treasurer/Candidate/Owner)

RESPONDENT: Democratic Party of Illinois  
 (Committee Name, Company Name, or Individual Named in Notification Letter)

MAILING ADDRESS: P.O. Box 518, Springfield, IL 62765  
 (Please Print)

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Information is being sought as part of an investigation being conducted by the Federal Election Commission and the confidentiality provisions of 2 U.S.C. § 437g(a)(12)(A) apply. This section prohibits making public any investigation conducted by the Federal Election Commission without the express written consent of the person under investigation.