



August 17, 2017

MEMORANDUM

TO: Kathleen Guith
Associate General Counsel

Jeff S. Jordan
Assistant General Counsel

AUDIT REFERRAL # 17-06

THROUGH: Alec Palmer
Staff Director

FROM: Patricia C. Orrock *DC* for PCO
Chief Compliance Officer

Thomas E. Hintermister
Assistant Staff Director
Audit Division

Thomas
Hintermister

Digitally signed by Thomas
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Date: 2017.08.17 14:30:17 -04'00'

Douglas A. Kodish *DAB*
Audit Manager

BY: Lezhi Irving
Lead Auditor *Lezhi Irving*

SUBJECT: American Financial Services Association PAC (A15-11) – Referral Matters

On July 21, 2017, the Commission approved the Proposed Final Audit Report on the American Financial Services Association PAC. The report was released to the public on August 15, 2017. In accordance with the Materiality Thresholds for Unauthorized Committees, the Final Audit Report of the Commission includes a two part finding, where one part, Finding 1.A- Most Recent Reports Filed Prior to the Audit, meets the criteria for referral to the Office of General Counsel. Also, Finding 1.B – Misstatement of Financial Activity – Original Reports Filed, meets the criteria for referral to the Office of Alternative Dispute Resolution; however, it is being referred to your office in accordance with the policy.

Finding 1.A – Misstatement of Financial Activity- Most Recent Reports Filed Prior to the Audit: Amount in Violation (Receipts- \$10,080.78, Disbursements- \$67,904.92); Calendar Year (2013).

1-800-690-6828

Part IV

Commission Findings

Finding 1. Misstatement of Financial Activity

Summary

During audit fieldwork, a comparison of AFSAPAC's reported financial activity with its bank records revealed a misstatement of receipts, disbursements, and the beginning and ending cash balances for 2013, and the beginning and ending cash balances for 2014. For 2013, AFSAPAC understated the beginning cash balance by \$113,536, understated receipts by \$10,081, understated disbursements by \$67,905, and understated the ending cash balance by \$55,712. For 2014, AFSAPAC understated the beginning cash balance by \$55,712, and the ending cash balance by \$53,393. Multiple amendments were filed after the beginning of the audit for both 2013 and 2014, but they did not fully correct the misstated amounts.

In response to the Interim Audit Report (IAR) recommendation, AFSAPAC stated that it filed amended reports on January 13, 2016, which significantly changed the misstated amounts. However, these amendments were not filed in direct response to the misstatements identified by the audit. Absent filing amended reports to materially correct the misstatements, AFSAPAC has not complied with the IAR recommendation. In response to the Draft Final Audit Report, AFSAPAC did not provide any additional information or documentation concerning this matter.

The Commission approved a finding that AFSAPAC misstated its financial activity for calendar years 2013 and 2014.

In addition, AFSAPAC's original reports for 2013 and 2014 materially understated receipts by \$310,683. AFSAPAC attempted to correct these misstatements and filed amended reports for each reporting period during the two year election cycle. In response to the IAR recommendation, AFSAPAC did not provide any additional comments regarding its understatement of receipts on its original reports. In response to the Draft Final Audit Report, AFSAPAC did not provide any additional information or documentation concerning this matter.

The Commission approved a finding that AFSAPAC misstated its financial activity in its original reports filed for calendar years 2013 and 2014.

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).

Facts and Analysis

A. Misstatement of Financial Activity- Most Recent Reports Filed Prior to the Audit

1. Facts

As part of this audit, the Audit staff reconciled AFSAPAC's reported financial activity with its bank records for calendar years 2013 and 2014. The following charts outline the discrepancies between AFSAPAC's disclosure reports and its bank records. Succeeding paragraphs explain why the discrepancies occurred.

2013 Committee Activity			
	Reported	Bank Records	Discrepancy
Beginning Cash Balance @ January 1, 2013	\$132,671	\$246,207	\$113,536 Understated
Receipts	\$380,743	\$390,824	\$10,081 Understated
Disbursements	\$293,006	\$360,911	\$67,905 Understated
Ending Cash Balance @ December 31, 2013	\$220,408	\$276,120	\$55,712 Understated

The beginning cash balance was understated by \$113,536 and the discrepancy is unexplained, but it likely resulted from prior period misstatements.

The understatement of receipts resulted from the following:

• Contributions from individuals, amount not reported (net)	\$5,500
• Unreported other receipts	10,775
• Unexplained difference	(6,194)
Net Understatement of Receipts	\$10,081

The understatement of disbursements resulted from the following:

• Contributions to political committees not reported	\$48,100
• Contribution refunds not reported	5,000
• Bank fees not reported	2,485
• Disbursement to Sponsor's account not reported	10,775
• Unexplained difference	1,545
Understatement of Disbursements	\$67,905

2014 Committee Activity			
	Reported	Bank Records	Discrepancy
Beginning Cash Balance @ January 1, 2014	\$220,408	\$276,120	\$55,712 Understated
Receipts	\$462,985	\$464,159	\$1,174 Understated
Disbursements	\$418,751	\$422,243	\$3,492 Understated
Ending Cash Balance @ December 31, 2014	\$264,642	\$318,036	\$53,394 Understated

The \$53,394 understatement of the 2014 ending cash balance resulted mostly from reporting discrepancies noted above from the prior year.

AFSAPAC filed amended reports on January 13, 2016, subsequent to the audit notification letter, dated November 18, 2015. These reports disclosed a cash increase of \$42,915 for 2013. However, the amendments only minimally corrected the reporting discrepancies for 2013, and the beginning and ending cash balances for 2014 remained materially misstated.

2. Interim Audit Report & Audit Division Recommendation

The Audit staff discussed the misstatements for 2013 and 2014 with AFSAPAC's representatives during the exit conference and provided copies of relevant work papers detailing the misstatements. In response, an AFSAPAC representative stated that it filed amended reports to correct the misstatements; however, the amendments were filed after AFSAPAC was notified of the audit and the amounts were still misstated as described in the preceding paragraph.

The IAR recommended that AFSAPAC amend its disclosure reports to correct the misstatements for both 2013 and 2014. In addition, the IAR recommended that AFSAPAC 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. Further, that AFSAPAC should reconcile the cash balance of its most recent report to identify any subsequent discrepancies that may affect the adjustment recommended by the Audit staff.

3. Committee Response to Interim Audit Report

In response to the IAR recommendation, AFSAPAC stated that it filed amended reports on January 13, 2016, which significantly changed the misstated amounts and that the reduction in the misstated amounts evidences AFSAPAC's corrective action. AFSAPAC also stated that the misstatements were all timing related, due to staff limitation and difficulty with the FEC software.

As stated in the IAR, the amendments filed by AFSAPAC prior to the issuance of the IAR did not sufficiently correct the 2013 and 2014 misstatements. The following misstatements remain in the amended reports. For 2013, the beginning cash balance, receipts, disbursements, and ending cash balance were understated by \$70,621,

representative made a rebuttal to the potential understatement finding by providing information about the corrections made in its amended filings. The Audit staff explained to the representative that amendments have no impact on the finding since the finding is based upon the original reports filed.

The IAR recommended that AFSAPAC provide any additional comments it deemed necessary with respect to this matter.

3. Committee Response to Interim Audit Report

AFSAPAC did not provide any comments regarding this matter.

4. Draft Final Audit Report

The Draft Final Audit Report restated the finding from the Interim Audit Report that AFSAPAC, based on the filing of its original reports, understated receipts by \$310,683. The recommendation was also restated, and requested AFSAPAC to provide any additional comments it deemed necessary with respect to this matter.

5. Committee Response to the Draft Final Audit Report

AFSAPAC did not provide any additional information or documentation in its response to the Draft Final Audit Report.

Commission Conclusion

On June 22, 2017, the Commission considered the Audit Division Recommendation Memorandum in which the Audit staff recommended that the Commission find that AFSAPAC misstated its financial activity in its original reports filed for calendar years 2013 and 2014.

The Commission approved the Audit staff's recommendation.

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