

# **Report of the Audit Division on the Paul Williams Campaign**

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**January 1, 2001 - December 31, 2002**



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## Why the Audit Was Done

Federal law permits the Commission to conduct audits and field investigations of any political committee that is required to file reports under the Federal Election Campaign Act (the Act). The Commission generally conducts such audits when a committee appears not to have met the threshold requirements for substantial compliance with the Act.<sup>1</sup> The audit determines whether the committee complied with the limitations, prohibitions and disclosure requirements of the Act.<sup>2</sup>

## Future Action

The Commission may initiate an enforcement action, at a later time, with respect to any of the matters discussed in this report.

## About the Committee (p. 2)

The Paul Williams Campaign (PWC) is the principal campaign committee for Paul Williams, Republican candidate for the U.S. House of Representatives from the state of Texas, Ninth District. PWC is headquartered in Kemah, TX. For more information, see the chart on the Campaign Organization, p. 2.

## Financial Activity (p. 2)

- **Receipts**
  - From Individuals \$ 55,050
  - From Political Party Committees 2,499
  - From PACs 1,000
  - **Total Receipts** \$ 58,549
- **Disbursements**
  - Operating Expenditures \$ 59,024
  - **Total Disbursements** \$ 59,024

## Findings and Recommendations (p. 4)

- Misstatement of Financial Activity (Finding 1)
- Disclosure of Contributions from Individuals (Finding 2)
- Disclosure of Disbursements (Finding 3)
- Cash Disbursements (Finding 4)
- Recordkeeping for Disbursements (Finding 5)

<sup>1</sup> 2 U.S.C. §438(b).

<sup>2</sup> The Candidate's 2000 committee, Paul Williams for Congress, was audited and the following Findings were noted: Failure to Maintain Records (receipts and disbursements), Disclosure of Receipts and Disbursements, Excess Disbursements of Cash, Personal Use of Excess Campaign Funds and Misstatement of Financial Activity.

# Table of Contents

	Page
<b>Part I. Background</b>	
Authority for Audit	1
Scope of Audit	1
Changes in the Law	1
<b>Part II. Overview of Campaign</b>	
Campaign Organization	2
Overview of Financial Activity	2
<b>Part III. Summaries</b>	
Findings and Recommendations	3
<b>Part IV. Findings and Recommendations</b>	
Finding 1. Misstatement of Financial Activity	4
Finding 2. Disclosure of Contributions from Individuals	5
Finding 3. Disclosure of Disbursements	6
Finding 4. Cash Disbursements	7
Finding 5. Recordkeeping for Disbursements	8

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## **Part I Background**

### **Authority for Audit**

This report is based on an audit of the Paul Williams Campaign (PWC), undertaken by the Audit Division of the Federal Election Commission (the Commission) in accordance with the Federal Election Campaign Act of 1971, as amended (the Act). The Audit Division conducted the audit pursuant to 2 U.S.C. §438(b), which permits the Commission to conduct audits and field investigations of any political committee that is required to file a report under 2 U.S.C. §434. Prior to conducting any audit under this subsection, the Commission must perform an internal review of reports filed by selected committees to determine if the reports filed by a particular committee meet the threshold requirements for substantial compliance with the Act. 2 U.S.C. §438(b).

### **Scope of Audit**

Following Commission approved procedures, the Audit staff evaluated various factors and as a result, this audit examined.

1. The receipt of excessive contributions and loans.
2. The receipt of contributions from prohibited sources.
3. The disclosure of contributions received.
4. The disclosure of disbursements, debts, and obligations.
5. The consistency between reported figures and bank records.
6. The completeness of records.
7. Other committee operations necessary to the review.

### **Changes to the Law**

On March 27, 2002, President Bush signed into law the Bipartisan Campaign Reform Act of 2002 (BCRA). The BCRA contains many substantial and technical changes to the federal campaign finance law. Most of the changes became effective November 6, 2002. Except for the period November 7, 2002, through December 31, 2002, the period covered by this audit pre-dates these changes. Therefore, the statutory and regulatory requirements cited in this report are those that were in prior to November 7, 2002.

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## Part II

### Overview of Campaign

#### Campaign Organization

<b>Important Dates</b>	<b>Paul Williams for Congress</b>
• Date of Registration	March 5, 2002
• Audit Coverage	January 1, 2001 - December 31, 2002
<b>Headquarters</b>	Kemah, Texas
<b>Bank Information</b>	
• Bank Depository	1
• Bank Account	1 Checking Account
<b>Treasurer</b>	
• Treasurer When Audit Was Conducted	Rick Trapp
• Treasurer During Period Covered by Audit	Fred Ashmead and Rick Trapp
<b>Management Information</b>	
• Attended FEC Campaign Finance Seminar	No
• Used Commonly Available Campaign Management Software Package	No, the Candidate manually filed the reports <sup>3</sup>
• Who Handled Accounting and Recordkeeping Tasks	The Candidate

#### Overview of Financial Activity (Audited Amounts)

<b>Cash on hand @ January 1, 2001</b>	<b>\$ 0</b>
<b>Receipts</b>	
o From Individuals	55,050
o From Political Party Committees	2,499
o From PAC's	1,000
<b>Total Receipts</b>	<b>\$ 58,549</b>
o Operating Expenditures	59,024
<b>Total Disbursements</b>	<b>\$ 59,024</b>
<b>Cash on hand @ December 31, 2002</b>	<b>\$ -475</b>

<sup>3</sup> PWC failed to file Pre-General, Post General and Year-End 2002 reports in an electronic format as required under 11 CFR 104.18. In response to the interim audit report, the aforementioned reports were filed in an electronic format.

## **Part III**

### **Summaries**

#### **Findings and Recommendations**

##### **Finding 1. Misstatement of Financial Activity**

A comparison of PWC's reported activity to bank records revealed a misstatement of financial activity for receipts and disbursements in calendar year 2002. In response to the interim audit report, PWC amended its reports to correct the misstatements. (For more detail, see p. 4)

##### **Finding 2. Disclosure of Contributions from Individuals**

PWC failed to properly disclose 36 contributions from individuals, totaling \$20,140. The majority of the errors resulted from the omission of election cycle-to-date totals. In response to the interim audit report, PWC amended its reports to correct the disclosure errors. (For more detail, see p. 5)

##### **Finding 3. Disclosure of Disbursements**

PWC did not itemize disbursements totaling \$19,634 or 38% of those required to be itemized. In addition, 13% of disbursements (\$6,633) itemized on PWC's reports were not properly disclosed. Most of the errors were caused by the failure to correctly disclose payees' addresses. In response to the interim audit report, PWC amended its reports to disclose these disbursements correctly (For more detail, see p. 6)

##### **Finding 4. Cash Disbursements**

PWC made 34 cash withdrawals from its bank account. The withdrawals totaled \$12,610. All but one was made by cash withdrawal from an ATM. The Act requires political committees to make all disbursements, except those from a petty cash fund, by check or similar draft drawn on a committee account. In response to the interim audit report, PWC offered an explanation for the cash transactions but did not demonstrate compliance with the law. (For more detail, see p. 7)

##### **Finding 5. Recordkeeping for Disbursements**

Our review indicated that 18% of PWC's disbursements (\$10,757) were not documented adequately. In response to the interim audit report, PWC provided adequate supporting documentation. (For more detail, see p. 8)

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## Part IV

# Findings and Recommendations

### Finding 1. Misstatement of Financial Activity

#### Summary

A comparison of PWC's reported activity to bank records revealed a misstatement of financial activity for receipts and disbursements in calendar year 2002. In response to the interim audit report PWC amended its reports to correct the misstatement.

#### 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; and
- The total amount of disbursements for the reporting period and for the calendar year. 2 U.S.C. §434(b)(1), (2) and (4).

#### Facts and Analysis

The Audit staff reconciled PWC's reported activity to its bank records and determined that receipts, disbursements and ending cash-on-hand were misstated in calendar year 2002. The misstatements were due to unreported receipts and unreported disbursements. Due to the condition of PWC's records, a portion of the misstatements could not be identified beyond entries on banks statements.

The following chart details the discrepancies between the totals on PWC's disclosure reports and the bank activity.

2002 Activity			
	Reported	Bank Records	Discrepancy
Receipts	\$52,949	\$58,549	\$5,600 Understated
Disbursements	\$52,126	\$59,024	\$6,897 Understated
Ending Cash Balance	1,146	-475 <sup>4</sup>	1,621 Overstated

<sup>4</sup> The negative ending cash figure is due to outstanding checks for which there are insufficient funds in the checking account to pay

**Explanation of Discrepancies****Receipts – 2002**

The understatement of receipts was the net result of the following:

• Documented contributions >\$200, not itemized on report and presumed to be unreported.	+ \$ 2,275
• Unidentified receipts on PWC bank statements not reported	+ 3,325
• Net understatement	<u>+ \$ 5,600</u>

**Disbursements – 2002**

The understatement of disbursements was the net result of the following:

• Disbursements itemized but not clearly identifiable per bank	- \$ 750
• Bank statement entries not found on reports	+ 6,634
• Math error	<u>+ 1,014</u>
• Net understatement	<u>+ \$ 6,897</u>

**Closing Cash on Hand – 2002**

The \$1,621 overstatement of the closing cash on hand was the net result of the misstatements described above.

**Interim Audit Report Recommendation and Committee Response**

In response to the recommendation in the interim audit report, PWC filed the reports necessary to correct the misstatements noted above.

**Finding 2. Disclosure of Contributions from Individuals****Summary**

PWC failed to properly disclose 36 contributions from individuals, totaling \$20,140. The majority of the errors resulted from the omission of election cycle-to-date totals. In response to the interim audit report, PWC amended its reports to correct the disclosure errors.

**Legal Standard**

**A. When to Itemize.** Authorized candidate committees must itemize:

- Any contribution from an individual if it exceeds \$200 per election cycle either by itself or when aggregated with other contributions from the same contributor;
- Every contribution from any political committee, regardless of the amount; and
- Every transfer from another political party committee, regardless of whether the committees are affiliated. 2 U.S.C. §434(b)(3)(A), (B) and (D).

**B. Required Information for Contributions.** For each itemized contribution, the committee must provide the following information:

- The contributor's full name and address (including zip code);
- The contributor's occupation and the name of his or her employer (if an individual);
- The date of receipt (the date the committee received the contribution);
- The amount of the contribution; and



- The election-to-date (or election cycle-to-date in the case of authorized candidate committees) total of all contributions from the same individual or political committee. 11 CFR §§100.12 and 104.3(a)(4) and 2 U.S.C. §434(b)(3)(A).

**C. Election Cycle.** The election cycle begins on the first day following the date of the previous general election and ends on the date of the next general election. 11 CFR §100.3(b).

### **Facts and Analysis**

The Audit staff's examination of Schedules A (Itemized Receipts) filed as part of PWC's disclosure reports identified 36 disclosure errors relating to contributions totaling \$20,140. The disclosure errors consisted of 30 instances where the election cycle-to-date totals were omitted (two of which also contained name discrepancies), four instances where there were incorrect contributor names, one omission of occupation and name of employer and one incorrect contribution amount.

### **Interim Audit Report Recommendation and Committee Response**

In response to the interim audit report, PWC amended its Schedules A to correct the disclosure errors.

## **Finding 3. Disclosure of Disbursements**

### **Summary**

PWC did not itemize disbursements totaling \$19,634 or 38% of those required to be itemized. In addition, 13% of disbursements (\$6,633) itemized on PWC's reports were not properly disclosed. Most of the errors were caused by the failure to correctly disclose payees' addresses. In response to the interim audit report, PWC amended its reports disclose these disbursements correctly.

### **Legal Standard**

**Reporting Operating Expenditures.** When operating expenditures to the same person exceed \$200 in an election cycle, the committee must report the:

- Amount;
- Date when the expenditures were made;
- Name and address of the payee; and
- Purpose (a brief description of why the disbursement was made). 2 U.S.C. §434(b)(5)(A) and 11 CFR §104.3(b)(4)(i)(A).

### **Facts and Analysis**

The Audit staff reviewed the available records to identify disbursements that were required to be itemized. The disbursements were identified using bank statements and tissue copies of checks. An examination of Schedules B revealed that disbursements totaling \$19,634, or 38% of those identified were not itemized as required. As stated below at Finding 5 (Recordkeeping for Disbursements), not all records were available for review and there may be other disbursements required to be itemized that the Audit staff was not able to identify.

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In addition, the Schedules B included in reports filed by PWC contained 29 disbursement entries, totaling \$32,394, eight of which (\$6,633), contained an incomplete address.

### **Interim Audit Report Recommendation and Committee Response**

In response to the interim audit report, PWC filed amended Schedules B to disclose the disbursements correctly.

## **Finding 4. Cash Disbursements**

### **Summary**

PWC made 34 cash withdrawals from its bank account. The withdrawals totaled \$12,610. All but one was made by cash withdrawal from an ATM. The Act requires political committees to make all disbursements, except those from a petty cash fund, by check or similar draft drawn on a committee account. In response to the interim audit report, PWC offered an explanation for the cash transactions but did not demonstrate compliance with the law.

### **Legal Standard**

**Disbursement by Check.** A political committee may only make expenditures in cash, not to exceed \$100 from a petty cash fund. A written journal for such cash expenditures is to be maintained by the treasurer. All other disbursements shall be made by check or similar draft drawn on account(s) established at the committee's campaign depository(ies). 2 U.S.C. §432(h).

### **Facts and Analysis**

Our examination of bank records and related information identified 34 transactions, totaling \$12,610, involving cash disbursements. One check was made payable to cash in the amount of \$2,600; the remaining transactions consisted of ATM withdrawals of cash from the campaign depository.

At the exit conference, the Candidate explained that the withdrawals were made to cover campaign related expenses paid to various individuals and vendors. He provided affidavits from three individuals attesting that they received cash payments totaling \$7,930 for services rendered to the campaign. In addition, invoices from a vendor and ATM receipts annotated by PWC indicated that cash payments totaling \$4,680 were made to the vendor.

### **Interim Audit Report Recommendation**

The Audit staff recommended that PWC:

- Demonstrate it complied with the provisions of 2. U.S.C. §432(h) regarding cash disbursements; and
- Make any comment it deemed relevant or offer an explanation regarding the cash disbursements.

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## **Committee's Response to Recommendation and Audit Staff's Assessment**

In response to the recommendation, PWC stated:

- "Disbursements by Check was impractical;"
- "Funds were withdrawn as a courtesy to staff...where there was a concern that checks might not clear the bank;"
- "The only cash withdrawals that were made were made specifically to pay campaign staff (campaign manager, coordinator, block walker, and consultant)."

This explanation demonstrates that PWC did not comply with 2 U.S.C 432(h) regarding cash disbursements.

## **Finding 5. Recordkeeping for Disbursements**

### **Summary**

Our review indicated that 18% of PWC's disbursements (\$10,757) were not documented adequately. In response to the interim audit report, PWC provided adequate supporting documentation.

### **Legal Standard**

**A. Required Records for Disbursements.** For each disbursement, the treasurer of a political committee must keep records on the:

- Name and address of the payee;
- Amount;
- Date;
- Purpose (a brief description of why the disbursement was made—see below); and
- If the disbursement was made on behalf of a candidate, the candidate's name and the office sought by the candidate.
- If the disbursement was in excess of \$200, the records must include a receipt or invoice from the payee, or a cancelled check or share draft to the payee. If the disbursement was by credit card, the record must include the monthly statement or customer receipt and the cancelled check used to pay the credit card bill. 2 U.S.C. §432(c), 11 CFR §102.9(b)

### **B. Examples of Purpose**

- **Adequate Descriptions.** Examples of adequate descriptions of "purpose" include the following: dinner expenses, media, salary, polling, travel, party fees, phone banks, travel expenses, travel expense reimbursement, catering costs, loan repayment, or contribution refund. 11 CFR §§104.3(b)(4)(i)(A).
- **Inadequate Descriptions.** The following descriptions do not meet the requirement for reporting "purpose": advance, election day expenses, other expenses, expense reimbursement, miscellaneous, outside services, get-out-the-vote, and voter registration. 11 CFR §§104.3(b)(4)(i)(A).

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**Facts and Analysis**

PWC did not maintain adequate documentation for 13 disbursements totaling \$10,757 or 18% of total disbursements. These disbursements were made by checks drawn on the PWC's bank account. For all except one of the disbursements, PWC did not maintain canceled checks, a check register or any documentation to identify the payees. The check numbers, dates and amounts were itemized on PWC's bank statements. For one \$300 disbursement, a tissue copy of the check that identified the payee was provided; however, it lacked an adequate purpose for the disbursement. Four of the disbursements appear to relate to entries on Schedule B of the disclosure reports.

This matter was presented to the Candidate during the exit conference. The candidate expressed a willingness to obtain the documentation. Subsequent to the exit conference, he provided copies of letters (dated September 2003) written to four vendors requesting invoices for disbursements totaling \$9,061.

**Interim Audit Report Recommendation and Committee Response**

In response to the interim audit report, PWC provided copies of canceled checks, invoices and receipts to adequately document the disbursements.

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