

### **Finding 3. Misstatement of Financial Activity**

#### **Summary**

During audit fieldwork, a comparison of JSFP's reported financial activity with its bank records revealed a misstatement of receipts and disbursements for 2015 and 2016 and a misstatement of ending cash on hand in 2016. In 2015, JSFP understated its reported receipts and disbursements by \$31,495 and \$35,042 respectively; and in 2016, JSFP understated its reported receipts, disbursements and ending cash on hand by \$996,384, \$800,310 and \$192,527 respectively. The Preliminary Audit Report recommended that JSFP amend its disclosure reports to correct the misstatements.

In response to the Preliminary Audit Report recommendation and the Draft Final Audit Report, JSFP stated it was in the process of amending its reports to correct the misstatements, but to date, no amended reports have been filed.

The Commission approved a finding that JSFP misstated its financial activity for calendar years 2015 and 2016.

#### **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. Facts**

As part of audit fieldwork, the Audit staff reconciled JSFP's reported activity<sup>2</sup> with its bank records for calendar years 2015 and 2016. The reconciliation revealed that JSFP misstated its receipts and disbursements for both years. The following charts outline the discrepancies between JSFP's disclosure reports and its bank records.

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<sup>2</sup> Due to JSFP's consolidated reporting as one entity for primary, general and recount activity; the incorrect identification of election designations on the reports; the missing election designation information in some of the database records; and the large volume of transactions not required to be itemized, it was impossible for the Audit staff to exclude the general and recount activity from this reconciliation, especially during the post DOI period, which was August 7, 2016 through December 31, 2016.

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2015 Reported Activity to Bank Activity			
	Reported	Bank Records	Discrepancy
Beginning Cash on hand @ January 1, 2015	\$0	\$0	\$0
Receipts	\$244,196	\$275,691	\$31,495 Understated
Disbursements	\$221,985	\$257,027	\$35,042 Understated
Ending Cash on hand @ December 31, 2015	\$22,211	\$18,664	\$3,547 Overstated

The understatement of receipts resulted from the following:

• Contributions from individuals not on reports	+	\$43,877
• Unexplained difference	-	<u>12,382</u>
<b>Net Understatement of Receipts</b>	+	<u>\$31,495</u>

The understatement of disbursements resulted from the following:

• Payments for salaries and wages not reported	+	\$45,364
• Disbursements reported but did not clear the bank	-	14,903
• Credit card fees not reported	+	4,455
• Miscellaneous disbursements not reported	+	<u>126</u>
<b>Net Understatement of Disbursements</b>	+	<u>\$35,042</u>

The \$3,547 overstatement of the ending cash on hand resulted from the misstatements described above.

2016 Reported Activity to Bank Activity <sup>3</sup>			
	Reported	Bank Records	Discrepancy
Beginning Cash on hand @ January 1, 2016	\$22,211	\$18,664	\$3,547
Receipts	\$10,951,133	\$11,947,517	\$996,384 <sup>4</sup> Understated
Disbursements	\$10,868,212	\$11,668,522	\$800,310 <sup>5</sup> Understated
Ending Cash on hand @ December 31, 2016	\$105,132	\$297,659	\$192,527 Understated

The understatement of receipts resulted from the following:

• Contributions from individuals not reported	+	\$565,893
• Contributions from individuals reported, not supported by bank deposit	-	128,420
• Offsets to operating disbursements not reported	+	6,328

<sup>3</sup> This activity represents primary election, general election and recount activity. See Committee Structure, p. 1.

<sup>4</sup> General election and recount activity represents \$815,959, or 82% of the understated receipts totals.

<sup>5</sup> General election and recount activity represents \$688,355 or 86% of the understated disbursement totals.

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• In-kind contributions not reported as a receipt	+	247
• Interest Income underreported	+	25
• Unexplained difference <sup>6</sup>	+	<u>552,311</u>
<b>Net Understatement of Receipts</b>		<u>\$996,384</u>

The understatement of disbursements resulted from the following:

• Credit card fees not reported	+	\$451,344
• Disbursements to vendors not reported	+	365,676
• Disbursements reported but did not clear the bank	-	74,774
• Disbursements directly from Paypal receipts, not reported	+	35,762
• Payments for salaries and wages, not reported	+	27,000
• In-kind contributions not reported as disbursement	+	247
• Unexplained difference	-	<u>4,945</u>
<b>Net Understatement of Disbursements</b>		<u>\$800,310</u>

The \$192,527 understatement of the ending cash on hand resulted from the misstatements described above.

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

The Audit staff presented this matter to the JSFP representative at the exit conference along with schedules detailing the discrepancies. During the exit conference, the JSFP representative stated he had no explanation for the discrepancies but would research and determine if there was a pattern that would explain the cause. In its response to the exit conference, JSFP made no comment on this finding.

The Preliminary Audit Report recommended that JSFP amend its disclosure reports to correct the misstatements.

### **C. Committee Response to Preliminary Audit Report**

In response to the Preliminary Audit Report recommendation, JSFP stated it was in the process of making the necessary amendments to correct the misstatements.

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

The Draft Final Audit Report outlined that no amended reports had been filed to correct the misstatement.

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

In response to the Draft Final Audit Report, JSFP stated it was in the process of amending its reports to correct the misstatements, but to date, no amended reports have been filed.

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<sup>6</sup> Due to the volume of contributions and an incomplete receipts database from JSFP, the specific individual contributors could not be identified; however, it appeared that the majority of this unexplained difference pertained to deposits in the bank made after the general election.

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**Commission Conclusion**

On March 27, 2019, the Commission considered the Audit Division Recommendation Memorandum in which the Audit staff recommended that the Commission find that JSFP misstated its financial activity for calendar years 2015 and 2016.

The Commission approved the Audit staff's recommendation.

**Finding 4. Disclosure of Debts and Obligations****Summary**

During audit fieldwork, the Audit staff identified debts totaling \$17,015 not disclosed on Schedule D-P (Debts and Obligations), as required. The Preliminary Audit Report recommended that JSFP amend its reports to disclose the outstanding debt.

In response to the Preliminary Audit Report recommendation and the Draft Final Audit Report, JSFP stated it was in the process of amending its reports to correct the disclosure of debts and obligations, but to date, no amended reports have been filed.

The Commission approved a finding that JSFP did not disclose debts and obligations totaling \$17,015.

**Legal Standard**

**A. Continuous Reporting Required.** An authorized committee must disclose the amount and nature of outstanding debts and obligations until those debts are extinguished. 52 U.S.C. §30104(b)(8) and 11 CFR §§104.3(d) and 104.11(a).

**B. Separate Schedules.** An authorized committee must file separate schedules for debts owed by and to the committee with a statement explaining the circumstances and conditions under which each debt and obligation was incurred or extinguished. 11 CFR §104.11(a).

**C. Itemizing Debts and Obligations.**

- Once it has been outstanding 60 days from the date incurred, a debt of \$500 or less must be reported on the next regularly scheduled report.
- A debt exceeding \$500 must be disclosed in the report that covers the date on which the debt was incurred, except reoccurring administrative expenses (such as rent) shall not be reported as a debt before the payment due date. 11 CFR §104.11(b).

**D. Disputed Debts.** A disputed debt is a bona fide disagreement between the creditor and the committee as to the existence of a debt or the amount owed by the committee. Until the creditor and committee resolve the dispute (assuming the creditor did provide something of value), the committee must disclose:

- The amount the committee admits it owes;
- The amount the creditor claims is owed; and
- Any amounts the committee has paid the creditor. 11 CFR §116.10.

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**Facts and Analysis****A. Facts**

During audit fieldwork, the Audit staff used the available disbursement records to reconcile the accounts of JSFP's largest primary election vendors, including accounts payable expenses for the NOCO. The Audit staff identified debts owed to these vendors totaling \$17,015, that were not disclosed on Schedule D-P, as required. For one transaction, totaling \$13,114, the majority of the error pertained to the disputed debt with one advertiser that was initially invoiced to JSFP for services in August 2016 and was ultimately paid in January 2017. During audit fieldwork, a JSFP representative stated the amount of this invoice had been in dispute, but agreed that this debt should have been reported until the final invoice amount was negotiated and paid.

**B. Preliminary Audit Report & Audit Division Recommendation**

The Audit staff presented this matter to the JSFP representative at the exit conference and provided schedules detailing the unreported debts for each relevant reporting period. This matter was discussed with the JSFP representative during fieldwork and at the exit conference. The representative stated he was familiar with the matter and understood the finding. In its response to the exit conference, JSFP made no comment on this finding.

The Preliminary Audit Report recommended that JSFP provide documentation demonstrating that the amount owed, of \$17,015, did not require reporting as debt on Schedule D-P. Absent such documentation, the Preliminary Audit Report recommended that JSFP amend its reports to disclose the outstanding debt and continue to disclose it until extinguished.

**C. Committee Response to Preliminary Audit Report**

In response to the Preliminary Audit Report recommendation, JSFP stated it was in the process of making the necessary amendments to correct the disclosure of debts and obligations.

**D. Draft Final Audit Report**

The Draft Final Audit Report indicated that no amended reports had been filed to correct the disclosure of debts and obligations.

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

In response to the Draft Final Audit Report, JSFP related it was in the process of amending its reports to correct the disclosure of debts and obligations, but to date, no amended reports have been filed.

**Commission Conclusion**

On March 27, 2019, the Commission considered the Audit Division Recommendation Memorandum in which the Audit staff recommended that the Commission find that JSFP did not disclose debts and obligations totaling \$17,015.

The Commission approved the Audit staff's recommendation.