



Interim Audit Report of the Audit Division on the Democratic Party of Arkansas (January 1, 2017 - December 31, 2018)

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.¹ The audit determines whether the committee complied with the limitations, prohibitions and disclosure requirements of the Act.

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 Democratic Party of Arkansas is a state party committee headquartered in Little Rock, Arkansas. For more information, see the chart on the Committee Organization, p. 2.

Financial Activity (p. 2)

• Receipts	
○ Contributions from Individuals	\$ 460,817
○ Contributions from Political Party and Other Committees	16,430
○ Transfers from Affiliated/Other Party Committees	863,936
○ Loans Received	32,500
○ Other Receipts	40,596
○ Transfers from Non-Federal Account	567,237
Total Receipts	\$ 1,981,516
• Disbursements	
○ Operating Expenditures	\$ 299,148
○ Allocated Federal/Non-Federal Expenditures	1,198,302
○ Transfers to Affiliated/Other Party Committees	33,710
○ Coordinated Party Expenditures	6,797
○ Loan Repayments	82,202
○ Other Disbursements	29,875
○ Federal Election Activity	326,518
Total Disbursements	\$ 1,976,552

Findings and Recommendations (p. 3)

- Reporting of Debts and Obligations (Finding 1)
- Recordkeeping for Employees (Finding 2)
- Reporting of Apparent Independent Expenditures (Finding 3)
- Disclosure of Loans and Loan Repayments (Finding 4)

¹ 52 U.S.C. §30111(b).



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Part I

Background

Authority for Audit

This report is based on an audit of the Democratic Party of Arkansas (DPA), 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 52 U.S.C. §30111(b), which permits the Commission to conduct audits and field investigations of any political committee that is required to file a report under 52 U.S.C. §30104. 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. 52 U.S.C. §30111(b).

Scope of Audit

Following Commission-approved procedures, the Audit staff evaluated various risk 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 disclosure of expenses allocated between federal and non-federal accounts;
6. the consistency between reported figures and bank records;
7. the completeness of records; and
8. other committee operations necessary to the review.

Commission Guidance

Request for Early Commission Consideration of a Legal Question

Pursuant to the Commission's "Policy Statement Establishing a Program for Requesting Consideration of Legal Questions by the Commission," several state party committees unaffiliated with DPA requested early consideration of a legal question raised during audits covering the 2010 election cycle. Specifically, the Commission addressed whether monthly time logs under 11 CFR §106.7(d)(1) were required for employees paid with 100 percent federal funds.

The Commission concluded, by a vote of 5-1, that 11 CFR §106.7(d)(1) does require committees to keep a monthly log for employees paid exclusively with federal funds. Exercising its prosecutorial discretion, however, the Commission decided it will not pursue recordkeeping violations for the failure to keep time logs or to provide affidavits to account for employee salaries paid with 100 percent federal funds and reported as such. The Audit staff informed DPA representatives of the payroll requirement and the Commission's decision not to pursue recordkeeping violations for failure to keep payroll logs for salaries paid and correctly reported as 100 percent federal. This audit report does not include any findings or recommendations with respect to DPA employees paid with 100 percent federal funds and reported as such.

Part II

Overview of Committee

Committee Organization

Important Dates	
• Date of Registration	March 8, 1976
• Audit Coverage	January 1, 2017 – December 31, 2018
Headquarters	
Little Rock, Arkansas	
Bank Information	
• Bank Depositories	Two
• Bank Accounts	Three Federal, Two Non-Federal
Treasurer	
• Treasurer When Audit Was Conducted	John Unger (1/10/2019 – Present)
• Treasurer During Period Covered by Audit	Dawne Vandiver (10/27/2017 – 1/9/2019) Tyler Clark (3/17/2014 – 10/26/2017)
Management Information	
• Attended FEC Campaign Finance Seminar	Yes
• Who Handled Accounting and Recordkeeping Tasks	Paid Staff

Overview of Financial Activity (Audited Amounts)

Cash on hand @ January 1, 2017	\$ (2,431)
Receipts	
○ Contributions from Individuals	460,817
○ Contributions from Political Party and Other Committees	16,430
○ Transfers from Affiliated/Other Party Committees	863,936
○ Loans Received	32,500
○ Other Receipts	40,596
○ Transfers from Non-Federal Account	567,237
Total Receipts	\$1,981,516
Disbursements	
○ Operating Expenditures	299,148
○ Allocated Federal/Non-Federal Expenditures	1,198,302
○ Transfers to Affiliated/Other Party Committees	33,710
○ Coordinated Party Expenditures	6,797
○ Loan Repayments	82,202
○ Other Disbursements	29,875
○ Federal Election Activity	326,518
Total Disbursements	\$1,976,552
Cash on hand @ December 31, 2018	\$ 1,715²

² DPA disclosed its ending cash on hand on December 31, 2018 as \$1,715, however, based on its disclosed beginning cash on hand on January 1, 2017 of negative \$2,431, plus receipts of \$1,981,516, less disbursements of \$1,976,552, the audit-calculated cash on hand on December 31, 2018 should be \$2,533.

Part III

Summaries

Findings and Recommendations

Finding 1. Reporting of Debts and Obligations

During audit fieldwork, the Audit staff noted that DPA failed to disclose debts and obligations owed to 27 vendors totaling \$351,097. The Audit staff recommends that, absent documentation demonstrating that these expenditures did not require reporting on Schedule D (Debts and Obligations), DPA amend its reports or file a Form 99 (Miscellaneous Electronic Submission) to disclose these debts. (For more detail, see p. 6.)

Finding 2. Recordkeeping for Employees

During audit fieldwork, the Audit staff determined that DPA did not maintain any monthly logs, as required, to document the percentage of time each employee spent in connection with a federal election. For 2017 and 2018, the Audit staff identified payments to DPA employees totaling \$408,872 for which DPA did not maintain monthly logs. This consisted of payroll which was allocated with federal and non-federal funds and payroll paid exclusively with non-federal funds. The Audit staff recommends that DPA provide evidence that monthly logs were maintained to document the percentage of time employees spent in connection with a federal election. Absent the provision of monthly logs specific to employees paid with 100% non-federal funds, DPA may provide records sufficient to verify that certain employees were involved in exclusively non-federal activities. If such monthly logs or records were not maintained by DPA, the Audit staff recommends that DPA implement a plan to maintain such monthly logs or records in the future. (For more detail, see p. 7.)

Finding 3. Reporting of Apparent Independent Expenditures

During audit fieldwork, the Audit staff reviewed expenditures totaling \$22,803, that DPA disclosed on Schedule B, Line 30(b) (Federal Election Activity Paid Entirely with Federal Funds). These expenditures appear to be independent expenditures containing express advocacy and should have been disclosed on Schedule E, Line 24 (Itemized Independent Expenditures).

Additionally, DPA did not provide sufficient documentation, pertaining to dissemination dates, to verify whether 24-hour reports were required to be filed for the apparent independent expenditures totaling \$18,424. Furthermore, DPA did not provide any volunteer documentation to support these disbursements.

If DPA believes that the apparent independent expenditures, totaling \$22,803, did not require reporting as independent expenditures, the Audit staff recommends that DPA provide documentation to support its conclusion. Absent such documentation, the Audit

staff recommends that DPA amend its reports to disclose these disbursements as independent expenditures on Schedule E and submit revised procedures for reporting independent expenditures. Lastly, the Audit staff recommends that DPA provide documentation to support the date of public dissemination for each communication to determine whether a filing of 24-hour reports was required. (For more detail, see p. 9.)

Finding 4. Disclosure of Loans and Loan Repayments

During audit fieldwork, the Audit staff determined that DPA failed to properly disclose transactions totaling \$32,500 on a line of credit, the correct terms and balances for outstanding loans totaling \$87,140, and loan repayments of \$3,563. DPA did not properly disclose the new loans and the terms and balances for outstanding loans on Schedules C (Loans) and/or C-1 (Loans and Line of Credit from Lending Institutions). In addition, some loan repayments were reported to the incorrect payee on Schedule B, Line 26 (Loan Repayments) and others were reported with disclosure errors on Schedule C. The Audit staff recommends that DPA provide documentation demonstrating that it properly disclosed the line of credit transactions, and the terms, balances and payees for the loans. Absent such documentation, DPA should amend its disclosure reports or file a Form 99 (Miscellaneous Electronic Submission) to correct the disclosure errors for its loan activity. (For more detail, see p. 15.)

Part IV

Findings and Recommendations

Finding 1. Reporting of Debts and Obligations

Summary

During audit fieldwork, the Audit staff noted that DPA failed to disclose debts and obligations owed to 27 vendors totaling \$351,097. The Audit staff recommends that, absent documentation demonstrating that these expenditures did not require reporting on Schedule D (Debts and Obligations), DPA amend its reports or file a Form 99 (Miscellaneous Electronic Submission) to disclose these debts.

Legal Standard

- A. Continuous Reporting Required.** A political 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.** A political committee must file separate schedules for debts owed by the committee and debts owed to the committee, together 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.**
- A debt of \$500 or less must be reported once it has been outstanding 60 days from the date incurred (the date of the transaction); the committee reports it 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 that any obligation incurred for rent, salary or other regularly reoccurring administrative expense shall not be reported as a debt before the payment due date. 11 CFR §104.11(b).

Facts and Analysis

A. Facts

During audit fieldwork, the Audit staff reviewed DPA's disbursement records and disclosure reports for proper reporting of debts and obligations. This review identified debts owed to 27 vendors totaling \$351,097³ that DPA failed to report on Schedule D during the audit period. Based on a review of the records, 26 of these vendors provided printing services, event rentals, video production, consulting, IT work, mailings, utility service, compliance, photography, finance director retainer, legal fees, fundraising, and cleaning services. The remaining vendor was a credit card vendor that DPA did not report on Schedule D during the audit period.

³ Each debt was counted only once, even if it was required to be disclosed over multiple periods.

DPA reported debt totaling \$32,984 on Schedule D during the audit period. The Audit staff calculated the debts owed to the vendors based on the invoice date and the subsequent payment date. Debts were outstanding for periods ranging from 15 days to 904 days.

B. Interim Audit Report & Audit Division Recommendation

The Audit staff discussed this matter with DPA representatives during the exit conference and provided a schedule detailing the transactions requiring disclosure on Schedule D. During the exit conference, DPA representatives questioned the inclusion of debts relating to recurring administrative expenses. The Audit staff responded that regularly recurring administrative expenses are subject to debt reporting requirements.⁴ In its response to the exit conference, DPA did not provide any further comments.

The Audit staff recommends that, within 30 calendar days of service of this report, DPA provide documentation demonstrating that the transactions totaling \$351,097 were not obligations which required reporting on Schedule D. Absent such documentation, the Audit staff recommends that DPA amend its reports or file a Form 99 (Miscellaneous Electronic Submission)⁵ to correctly disclose these debts and obligations on Schedule D.

Finding 2. Recordkeeping for Employees

Summary

During audit fieldwork, the Audit staff determined that DPA did not maintain any monthly logs, as required, to document the percentage of time each employee spent in connection with a federal election. For 2017 and 2018, the Audit staff identified payments to DPA employees totaling \$408,872 for which DPA did not maintain monthly logs. This consisted of payroll which was allocated with federal and non-federal funds and payroll paid exclusively with non-federal funds. The Audit staff recommends that DPA provide evidence that monthly logs were maintained to document the percentage of time employees spent in connection with a federal election. Absent the provision of monthly logs specific to employees paid with 100% non-federal funds, DPA may provide records sufficient to verify that certain employees were involved in exclusively non-federal activities. If such monthly logs and records were not maintained by DPA, the Audit staff recommends that DPA implement a plan to maintain such monthly logs and records in the future.

Legal Standard

- A. Maintenance of Monthly Logs.** Committees must keep a monthly log of the percentage of time each employee spends in connection with a federal election. Allocations of salaries, wages, and fringe benefits are to be undertaken as follows:
- Employees who spend 25% or less of their compensated time in a given month on federal election activities must be paid either from the federal account or have

⁴ See 11 CFR §104.11(b).

⁵ If DPA chooses to file a Form 99 instead of amending its disclosure reports, the form must contain all pertinent information that is required on each schedule.

their pay allocated as administrative costs between the federal and non-federal accounts;

- Employees who spend more than 25% of their compensated time in a given month on federal election activities must be paid only from a federal account; and
- Employees who spend none of their compensated time in a given month on federal election activities may be paid entirely with funds that comply with State law. 11 CFR §106.7(d)(1).

B. Formal Requirements Regarding Reports and Statements. Each political committee shall maintain records with respect to the matters required to be reported which shall provide in sufficient detail the necessary information and data from which the filed reports may be verified, explained, clarified, and checked for accuracy and completeness. 11 CFR §104.14(b)(1).

Facts and Analysis

A. Facts

During audit fieldwork, the Audit staff reviewed disbursements for payroll. DPA did not maintain any monthly logs or equivalent records to document the percentage of time each employee spent in connection with a federal election. These logs are required to document the proper allocation of federal and non-federal funds used to pay employee salaries and wages. For 2017 and 2018, DPA did not maintain monthly logs for \$408,872 in payroll.⁶ This amount includes:

- Payroll totaling \$373,961 for employees reported on Schedule H4 (Disbursements for Allocated Federal and Non-Federal Activity) and paid with an allocation of federal and non-federal funds during the same month;
- Payroll totaling \$1,374 for employees reported on Schedule H4 and/or Schedule B (Itemized Disbursements) and also paid with 100 percent non-federal funds during the same month; and
- Payroll totaling \$33,537 for employees paid exclusively with non-federal funds in a given month.

B. Interim Audit Report & Audit Division Recommendation

The Audit staff discussed this matter with DPA representatives during the exit conference and provided a schedule of the payroll transactions. DPA representatives responded that DPA did not maintain monthly logs for employees during calendar years 2017 and 2018 and objected to the request for non-federal employee payroll records. The Audit staff has consistently requested these records and included these types of transactions as findings. Therefore, these transactions were included in the exit conference as a preliminary finding. In its response to the exit conference, DPA did not provide any further comments.

⁶ This total does not include payroll for employees paid with 100 percent federal funds and reported as such (see Part I, Background, Commission Guidance, and Request for Early Commission Consideration of a Legal Question, Page 1). Payroll amounts are stated net of taxes and fringe benefits.

The Audit staff recommends that, within 30 calendar days of service of this report, DPA provide evidence that monthly logs were maintained to document the percentage of time employees spent in connection with a federal election. Absent the provision of monthly logs specific to employees paid with 100% non-federal funds, DPA may provide evidence that records consistent with 11 CFR §104.14(b)(1) were maintained to document that certain employees were involved in exclusively non-federal activities. Additionally, DPA should provide and implement a plan to maintain monthly logs and other records consistent with 11 CFR §104.14(b)(1) in the future.

Finding 3. Reporting of Apparent Independent Expenditures

Summary

During audit fieldwork, the Audit staff reviewed expenditures totaling \$22,803, that DPA disclosed on Schedule B, Line 30(b) (Federal Election Activity Paid Entirely with Federal Funds). These expenditures appear to be independent expenditures containing express advocacy and should have been disclosed on Schedule E, Line 24 (Itemized Independent Expenditures).

Additionally, DPA did not provide sufficient documentation, pertaining to dissemination dates, to verify whether 24-hour reports were required to be filed for the apparent independent expenditures totaling \$18,424. Furthermore, DPA did not provide any volunteer documentation to support these disbursements.

If DPA believes that the apparent independent expenditures, totaling \$22,803, did not require reporting as independent expenditures, the Audit staff recommends that DPA provide documentation to support its conclusion. Absent such documentation, the Audit staff recommends that DPA amend its reports to disclose these disbursements as independent expenditures on Schedule E and submit revised procedures for reporting independent expenditures. Lastly, the Audit staff recommends that DPA provide documentation to support the date of public dissemination for each communication to determine whether a filing of 24-hour reports was required.

Legal Standard

A. Definition of Independent Expenditures. An independent expenditure is an expenditure made for a communication expressly advocating the election or defeat of a clearly identified candidate that is not made in cooperation, consultation, or concert with, or at the request or suggestion of, a candidate, a candidate's authorized committee, or their agents, or a political party or its agents.

A clearly identified candidate is one whose name, nickname, photograph or drawing appears, or whose identity is apparent through unambiguous reference, such as "your Congressman," or through an unambiguous reference to his or her status as a candidate, such as "the Democratic presidential nominee" or "Republican candidate for Senate in this state."

Expressly advocating means any communication that:

- Uses phrases such as “vote for the President” or “re-elect your Congressman” or communications of campaign slogan(s) or individual word(s), which in context can have no other reasonable meaning than to urge election or defeat of one or more clearly identified candidates; or
- When taken as a whole and with limited references to external events, such as proximity to the election, could be interpreted by a reasonable person only as advocating the election or defeat of one or more clearly identified candidates. 11 CFR §§100.16(a), 100.17 and 100.22.

B. Disclosure Requirements – General Guidelines. An independent expenditure shall be reported on Schedule E if, when added to other independent expenditures made to the same payee during the same calendar year, it exceeds \$200. Independent expenditures made (i.e., publicly disseminated) prior to payment should be disclosed as memo entries on Schedule E and as a debt on Schedule D. Independent expenditures of \$200 or less need not be itemized, though the committee must report the total of those expenditures on Schedule E, Line 30(b). 11 CFR §§104.3(b)(3)(vii), 104.4(a) and 104.11.

C. Last-Minute Independent Expenditure Reports (24-Hour Reports). Any independent expenditures aggregating \$1,000 or more, with respect to any given election, and made after the 20th day but more than 24 hours before the day of an election must be reported and the report must be received by the Commission within 24 hours after the expenditure is made. A 24-hour report is required for each additional \$1,000 that aggregates. The 24-hour report must be filed on a Schedule E. The date that a communication is publicly disseminated serves as the date that the Committee must use to determine whether the total amount of independent expenditures has, in the aggregate, reached or exceeded the threshold reporting amount of \$1,000. 11 CFR §§104.4(f) and 104.5(g)(2).

D. Formal Requirements Regarding Reports and Statements. Each political committee shall maintain records with respect to the matters required to be reported which shall provide in sufficient detail the necessary information and data from which the filed reports may be verified, explained, clarified, and checked for accuracy and completeness. 11 CFR §104.14(b)(1).

E. Allocation of Expenses between Candidates. Expenditures made on behalf of more than one clearly identified federal candidate shall be attributed to each such candidate according to the benefit expected to be derived. In the case of a publication or broadcast communication, the attribution shall be determined by the proportion of space or time devoted to all candidates. This method shall be used to allocate payments involving both clearly identified federal candidates and one or more clearly identified non-federal candidates. 11 CFR §106.1(a).

F. Volunteer Activity. The payment by a state committee of a political party of the costs of campaign materials (such as pins, bumper stickers, handbills, brochures, posters, party tabloids or newsletters, and yard signs) used by such committee in

connection with volunteer activities on behalf of any nominee(s) of such party is not a contribution, provided that the following conditions are met:

- Such payment is not for cost incurred in connection with any broadcasting, newspaper, magazine, bill board, direct mail, or similar type of general public communication or political advertising. The term direct mail means any mailing(s) by a commercial vendor or any mailing(s) made from commercial lists;
- The portion of the cost of such materials allocable to Federal candidates must be paid from contributions subject to the limitations and prohibitions of the Act;
- Such payment is not made from contributions designated by the donor to be spent on behalf of a particular candidate for federal office;
- Such materials are distributed by volunteers and not by commercial or for-profit operations;
- If made by a political committee such payments shall be reported by the political committee as a disbursement in accordance with 11 CFR §104.3 but need not be allocated to specific candidates in committee reports; and
- The exemption is not applicable to campaign materials purchased by the national party committees. 11 CFR §100.87 (a), (b), (c), (d), (e) and (g) and 11 CFR §100.147 (a), (b), (c), (d), (e) and (g).

Facts and Analysis

A. Reporting of Apparent Independent Expenditures

1. Facts

During audit fieldwork, the Audit staff reviewed disbursements to ensure proper reporting. The Audit staff noted that DPA did not disclose any independent expenditures on Schedule E, however, it made apparent independent expenditures totaling \$22,803 and disclosed them on Schedule B, Line 30(b) (Federal Election Activity Paid Entirely with Federal Funds). These expenditures were for pledge cards, walking cards, and direct mail pieces, which all contained express advocacy. A breakdown analysis for these expenditures is as follows:

Apparent Independent Expenditures Reported as Federal Election Activity (FEA) Paid Entirely with Federal Funds (Associated Mailer Provided under 11 CFR §100.22(a))

- a. DPA made one disbursement for pledge cards totaling \$1,128 for which it provided a copy of the piece and associated invoice. The pledge card, disclosed as “Volunteer Exempt/Printing of Canvass Materials – Tucker for Congress” on DPA’s disclosure reports, contained the following phrase: “Pledge to vote early for Clarke Tucker.” DPA did not provide evidence of volunteer involvement to support the volunteer materials exemption for this activity. This communication contained language expressly advocating for the election or defeat of a clearly identified candidate, as defined under 11 CFR §100.22(a).
- b. DPA made one disbursement for walking cards totaling \$3,251 for which it provided a copy of the piece and associated invoice. The walking card, disclosed as “Volunteer Exempt/Printing of Canvass Materials – Tucker for Congress” on DPA’s disclosure reports, contained the following phrase: “2

Ways to vote for Clarke Tucker.” DPA did not provide evidence of volunteer involvement to support the volunteer materials exemption for this activity. This communication contained language expressly advocating for the election or defeat of a clearly identified candidate, as defined under 11 CFR §100.22(a).

- c. DPA made one disbursement for direct mail pieces totaling \$18,424 for which it provided a copy of the pieces and associated invoice. The direct mail pieces, disclosed as “Printing & Postage/Volunteer Exempt Mailing/Clarke Tucker for Congress” on DPA’s disclosure reports, contained the following phrase: “Vote Clarke Tucker for Congress.” DPA did not provide evidence of volunteer involvement to support the volunteer materials exemption for this activity. This communication contained language expressly advocating for the election or defeat of a clearly identified candidate, as defined under 11 CFR §100.22(a).

2. Interim Audit Report & Audit Division Recommendation

The Audit staff discussed this matter with DPA representatives during the exit conference and provided a schedule detailing these expenditures. DPA representatives stated that “these were not independent expenditures,” that “no state party committee has volunteer support for canvassing materials,” and that “canvassing materials don’t qualify as public communications.” DPA representatives stated they would “work on obtaining volunteer involvement support for the Resonance Campaigns expenditure [identified in 1(c) above]... but not for the Print for Progress canvassing expenditures [identified in 1(a) and 1(b) above]” because those “two items are not public communications.” In response to the exit conference, no additional supporting documentation and no further comment was provided.

The payment by a state or local party committee for the costs of campaign materials (such as pins, bumper stickers, handbills, brochures, posters, party tabloids or newsletters, and yard signs) used by such committee in connection with volunteer activities on behalf of any nominee(s) of such party is not an expenditure provided that such materials are distributed by volunteers and not by commercial or for-profit operations. 11 CFR § 100.147(d). The Audit staff contends, therefore, that whether the volunteer materials exemption applies does not hinge on the type of campaign material a committee uses, but, instead, on how the campaign materials are distributed. In particular, the Commission draws a distinction between campaign materials distributed by volunteers, which qualify for the exemption, and those that are distributed by paid workers of commercial entities or for-profit operations, which do not qualify for the exemption. *Id.* To determine whether the volunteer materials exemption applies, the Commission must evaluate whether a committee, in fact, used volunteers to distribute campaign materials.

To date, DPA has not provided evidence of volunteer involvement for these expenditures. Prior to determining whether the volunteer materials exemption applies to the expenditures, DPA must provide evidence of volunteer involvement.

The Audit staff recommends that, within 30 calendar days of service of this report, DPA:

- Provide documentation that apparent independent expenditures, totaling \$22,803, did not require reporting as independent expenditures; and/or
- Provide evidence to support the volunteer materials exemption application for apparent independent expenditures, totaling \$22,803. Such evidence will assist the Commission in determining if the volunteer materials exemption is applicable to these expenditures.

Absent such documentation, the Audit staff recommends that DPA amend its reports to disclose these disbursements as independent expenditures on Schedule E (Itemized Independent Expenditures) and provide documentation to support the date of public dissemination for each communication to determine whether a 24-hour report was required to be filed.

B. Volunteer Materials Exemption

1. Facts

DPA reported three disbursements totaling \$22,803 on Schedule B as Federal Election Activity. Two of these disbursements were reported as made to “Print for Progress” and the third was reported as made to “Resonance Campaigns, LLC.” DPA reported the purposes of the two disbursements made to Print for Progress as “Volunteer Exempt/Printing of Canvass Materials – Tucker for Congress,” and the third disbursement made to Resonance Campaigns, LLC, as “Printing & Postage/Volunteer Exempt Mailing/Clarke Tucker for Congress.” The invoices for the two disbursements made to Print for Progress were annotated as “AR-02 Pledge Cards” and “AR-02 Walk Cards,” while the third invoice for the disbursement made to Resonance Campaigns, LLC, was annotated as “Production and Design DCC1815 (Qty. 60,969) 8.5x11.” DPA, however, did not provide any volunteer documentation or evidence of volunteer involvement to support these disbursements.

The Commission has addressed the applicability of the volunteer materials exemption in the Final Audit Reports of the Arizona Republican Party, the Democratic Executive Committee of Florida, and the Tennessee Republican Party. In these reports, the Commission recognized a lack of clarity regarding the application of the volunteer materials exemption. The Commission had attempted to formulate a consensus policy regarding what constitutes substantial volunteer involvement for the purpose of applying the exemption⁷, but this was never achieved. Since a lack of clarity exists concerning the application of the volunteer materials exemption, it follows that the type and amount of documentation needed to support volunteer involvement is also unclear.

⁷ Proposed Interim Enforcement Policy, Agenda document No. 10-16.
<https://www.fec.gov/resources/updates/agendas/2010/mtgdoc1016.pdf>

2. Interim Audit Report & Audit Division Recommendation

The Audit staff discussed this matter with DPA representatives during the exit conference and provided a schedule detailing these expenditures. DPA representatives stated that “these were not independent expenditures,” that “no state party committee has volunteer support for canvassing materials,” and that “canvassing materials don’t qualify as public communications.” DPA representatives stated they would “work on obtaining volunteer involvement support for the Resonance Campaigns expenditure ... but not for the Print for Progress canvassing expenditures” because those “two items are not public communications.” In response to the exit conference, no additional supporting documentation and no further comment was provided.

As previously discussed in section A.2 above, the Audit staff contends that whether the volunteer materials exemption applies does not hinge on the type of campaign material a committee uses, but, instead, on how the campaign materials are distributed. DPA has not provided evidence of volunteer involvement for these expenditures. Prior to determining whether the volunteer materials exemption applies to the expenditures, DPA must provide evidence of volunteer involvement.

The Audit staff recommends that, within 30 calendar days of service of this report, DPA provide documentation and evidence that apparent independent expenditures totaling \$22,803 did not require reporting as independent expenditures. Evidence should include documentation such as volunteer sign in sheets, photographs of volunteers participating in various duties such as reviewing, sorting and packing the direct mail pieces, etc., to support the involvement of volunteer processing or distributing the communication. Absent such evidence, the Audit staff recommends DPA amend its reports to disclose the disbursements as independent expenditures on Schedule E.

C. Failure to File 24-Hour Reports for Apparent Independent Expenditures

1. Facts

In addition to not reporting the apparent independent expenditures totaling \$22,803 identified above, DPA did not file any 24-hour reports⁸, which may have been required.

2. Interim Audit Report & Audit Division Recommendation

The Audit staff discussed this matter with DPA representatives during the exit conference and presented a schedule detailing these expenditures. DPA representatives stated that “these were not independent expenditures,” that “no state party committee has volunteer support for canvassing materials,” and that “canvassing materials don’t qualify as public communications.” DPA representatives stated they would “work on obtaining volunteer involvement

⁸ The date the expenditure is publicly distributed serves as the date that the independent expenditure is made for purposes of the additional 24-hour report filing requirement. In the absence of a known date for public dissemination, the Audit staff used the invoice date of incurrence to determine if a 24-hour report was required.

support for the Resonance Campaigns expenditure ... but not for the Print for Progress canvassing expenditures” because those “two items are not public communications.” In response to the exit conference, no additional supporting documentation and no further comment was provided.

As previously discussed in section A.2 above, the Audit staff contends that whether the volunteer materials exemption applies does not hinge on the type of campaign material a committee uses, but, instead, on how the campaign materials are distributed. DPA has not provided evidence of volunteer involvement for these expenditures. Prior to determining whether the volunteer materials exemption applies to the expenditures, DPA must provide evidence of volunteer involvement.

Absent documentation that the apparent independent expenditures, totaling \$22,803, did not require reporting as independent expenditures (per Part A above), the Audit staff recommends that, within 30 calendar days of service of this report, DPA provide documentation to support the date of public dissemination for each mailer to determine whether a 24-hour report was required to be filed.

Finding 4. Disclosure of Loans and Loan Repayments

Summary

During audit fieldwork, the Audit staff determined that DPA failed to properly disclose transactions totaling \$32,500 on a line of credit, the correct terms and balances for outstanding loans totaling \$87,140, and loan repayments of \$3,563. DPA did not properly disclose the new loans and the terms and balances for outstanding loans on Schedules C (Loans) and/or C-1 (Loans and Line of Credit from Lending Institutions). In addition, some loan repayments were reported to the incorrect payee on Schedule B, Line 26 (Loan Repayments) and others were reported with disclosure errors on Schedule C. The Audit staff recommends that DPA provide documentation demonstrating that it properly disclosed the line of credit transactions, and the terms, balances and payees for the loans. Absent such documentation, DPA should amend its disclosure reports or file a Form 99 (Miscellaneous Electronic Submission) to correct the disclosure errors for its loan activity.

Legal Standard

- A. Reporting Loans.** All loans received by a committee must be itemized and continuously reported until repaid. All repayments made on a loan must also be itemized. 11 CFR §§104.3(a)(4)(iv), (b)(4)(iii) and §104.11.
- B. Schedule C.** Both the original loan and payments to reduce principal must be reported each reporting period until the loan is repaid. The committee must report the following:
- The source of the loan; and
 - The type of loan the candidate received (i.e. bank loan, brokerage account, credit card, or home equity line of credit) either in the first box for endorsers and guarantors with a notation for loan type or in the box for “Loan Source” after the

candidate's name. 11 CFR §104.3(d) and §104.11.

C. Schedule C-1.

1. **Loans to Committees.** When a committee obtains a loan from a bank or other permissible lending institution it must also file Schedule C-1 with the first report due after a new loan or line of credit has been established. The committee must disclose the following information on Schedule C-1:
 - The date and amount of the loan;
 - The interest rate and repayment schedule of the loan, or on each draw of line of credit;
 - The type and value of collateral or other sources of repayment that secure the loan or the line of credit, and whether that security interest was perfected; and
 - An explanation of the basis upon which the loan was made, if not made on the basis of either collateral or other sources of repayment.
2. **Loan Agreement/Line of Credit.** The committee must also attach a copy of the loan agreement. In the case of a committee that has obtained a line of credit, a new Schedule C-1 must be filed with the next report whenever the committee draws on the line of credit. An authorized representative of the lending institution must sign the statement on Line I. 11 CFR §104.3(d)(1) and (3).

D. Continuous Reporting Required. A political committee must disclose the amount and nature of outstanding debts and obligations until those debts are extinguished. 52 U.S.C. §30104(b).

Facts and Analysis

A. Facts

During audit fieldwork, the Audit staff reviewed bank loans and a line of credit from Simmons Bank and First National Bank. Based upon a detailed review, the Audit staff determined the following:

- For the line of credit received from Simmons Bank, DPA made three draws on the line of credit totaling \$32,500 but did not disclose these draws on Schedules C (Loans) and/or C-1 (Loans and Line of Credit from Lending Institutions). In addition, DPA reported incorrect payment terms (due date and interest rate) and an incorrect outstanding balance for this line of credit, which resulted in the under-reporting of its 2018 year-end line of credit balance by \$77,447.⁹
- For the loan received from First National Bank, the incorrect balance was disclosed on Schedule C throughout the audit period. The loan was paid off on

⁹ For this line of credit, DPA carried an outstanding balance on January 1, 2017 of \$60,766 and added to the principal by incurring three draws on the line of credit totaling \$32,500 in 2017, plus an additional incurrence adding \$557 to the principal in 2018. DPA made payments against the principal of \$985 in 2017 and \$72,815 in 2018, and this resulted in an audit-calculated outstanding balance for the line of credit on December 31, 2018 of \$20,023. However, DPA disclosed the ending balance for this line of credit to be negative \$57,424, which resulted in the under-reporting of its 2018 year-end line of credit balance by \$77,447 (calculated as \$20,023 minus negative \$57,424).

March 13, 2017, but DPA continued to incorrectly disclose an outstanding balance of \$9,693 from July 1, 2017 through December 31, 2018.

- Loan repayments totaling \$1,036 to Simmons Bank were reported to the incorrect payee (“Simmons First National Bank”) on Schedule B, Line 26, of the 2017 February Monthly, March Monthly, May Monthly, and July Monthly Reports. These loan repayments were also reported on Schedule C to the incorrect payee (“First National Bank”) of the 2017 February Monthly, March Monthly, and May Monthly Reports, and were not reported on Schedule C of the 2017 July Monthly Report. In addition, loan repayments totaling \$2,527 to First National Bank were reported to the correct payee on Schedule B, Line 26, of the 2017 February Monthly and March Monthly Reports, but not reported on Schedule C.

B. Interim Audit Report & Audit Division Recommendation

The Audit staff discussed this matter with DPA representatives during the exit conference and provided a schedule detailing the disclosure errors. DPA representatives stated that they were aware of the disclosure problems and indicated they would amend reports to correctly disclose the loans and line of credit. To date, DPA has not amended its reports or provided any further comment.

The Audit staff recommends that, within 30 calendar days of service of this report, DPA provide documentation demonstrating that the identified draws on the line of credit, as well as the terms and balances for outstanding loans, and loan repayments were correctly disclosed. Absent such demonstration, the Audit staff recommends that DPA amend its disclosure reports or file a Form 99 (Miscellaneous Electronic Submission)⁴ to disclose the correct information on Schedule B, Line 26 (Loan Repayments), Schedule C, and Schedule C-1.