



Interim Audit Report of the Audit Division on the Mississippi Republican Party

(January 1, 2015 - December 31, 2016)

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 Mississippi Republican Party is a state party committee headquartered in Jackson, Mississippi. For more information, see the chart on the Committee Organization, p. 2.

Financial Activity (pp. 2 and 3)

• Receipts

○ Contributions from Individuals	\$ 740,807
○ Contributions from Political Party Committees and Other Political Committees	55,950
○ Transfers from Affiliated/Other Party Committees	1,647,080
○ Offsets to Operating Expenditures	2,686
○ Other Federal Receipts	98,202
○ Transfers from Non-Federal Account	172,635
Total Receipts	\$ 2,717,360

• Disbursements

○ Operating Expenditures	\$ 328,494
○ Allocated Federal/Non-Federal Expenditures	492,538
○ Transfers to Affiliated Committees	1,587,842
○ Federal Election Activity	2 96,857
Total Disbursements	\$ 2,705,731

Findings and Recommendations (p. 4)

- Misstatement of Financial Activity (Finding 1)
- Reporting of Debts and Obligations (Finding 2)
- Reporting of Apparent Independent Expenditures (Finding 3)

¹ 52 U.S.C. §30111(b).



Interim Audit Report of the Audit Division on the Mississippi Republican Party

(January 1, 2015 - December 31, 2016)

Table of Contents

	Page
Part I. Background	
Authority for Audit	1
Scope of Audit	1
Part II. Overview of Committee	
Committee Organization	2
Overview of Financial Activity	2
Part III. Summaries	
Findings and Recommendations	4
Part IV. Findings and Recommendations	
Finding 1. Misstatement of Financial Activity	5
Finding 2. Reporting of Debts and Obligations	6
Finding 3. Reporting of Apparent Independent Expenditures	8

Part I

Background

Authority for Audit

This report is based on an audit of the Mississippi Republican Party (MRP), 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;
2. the receipt of contributions from prohibited sources;
3. the disclosure of contributions received;
4. the disclosure of individual contributors' occupation and name of employer;
5. the disclosure of disbursements, debts and obligations;
6. the disclosure of expenses allocated between federal and non-federal accounts;
7. the consistency between reported figures and bank records;
8. the completeness of records;
9. the disclosure of independent expenditures; and
10. other committee operations necessary to the review.

Part II

Overview of Committee

Committee Organization

Important Dates	
• Date of Registration	January 9, 1978
• Audit Coverage	January 1, 2015 – December 31, 2016
Headquarters	Jackson, Mississippi
Bank Information	
• Bank Depositories	Two
• Bank Accounts	Three Federal; Three Non-federal
Treasurer	
• Treasurer When Audit Was Conducted	Lucien Smith (1/26/2018 - 1/30/2018) Paul V. Breazeale (1/31/2018 - present)
• Treasurer During Period Covered by Audit	Paul V. Breazeale (8/21/2012 - 7/19/16) Lucien Smith (7/20/2016 - 12/31/2016)
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, 2015	\$ 42,307
Receipts	
○ Contributions from Individuals	740,807
○ Contributions from Political Party and Other Committees	55,950
○ Transfers from Affiliated and Other Political Committees	1,647,080
○ Offsets to Operating Expenditures	2,686
○ Other Federal Receipts	98,202
○ Transfers from Non-Federal Account	172,635
Total Receipts	\$ 2,717,360
Disbursements	
○ Operating Expenditures	328,494
○ Allocated Federal/Non-Federal Expenditures	492,538

○ Transfers to Affiliated Committees	1,587,842
○ Federal Election Activity	296,857
Total Disbursements	\$ 2,705,731
Cash-on-hand @ December 31, 2016	\$ 53,936

Part III

Summaries

Findings and Recommendations

Finding 1. Misstatement of Financial Activity

During audit fieldwork, a comparison of MRP's reported financial activity with its bank records revealed a misstatement of receipts and disbursements for calendar year 2015. Specifically, MRP understated its receipts and disbursements by \$10,606 and \$14,808, respectively. The Audit staff recommends that MRP amend its disclosure reports or file a Form 99 (Miscellaneous Text Submission) to correct the misstatements. (For more detail, see p. 5.)

Finding 2. Reporting of Debts and Obligations

During audit fieldwork, the Audit staff noted that MRP failed to disclose debts and obligations owed to 10 vendors totaling \$152,931. The Audit staff recommends, absent documentation demonstrating that these expenditures did not require reporting on Schedule D (Debts and Obligations), that MRP amend its reports or file a Form 99 to disclose these debts. (For more detail, see p. 6.)

Finding 3. Reporting of Apparent Independent Expenditures

During audit fieldwork, the Audit staff reviewed expenditures totaling \$38,940, that MRP disclosed on Schedule B, Line 21(b) (Other Federal Operating Expenditures) and Schedule H4 (Disbursements for Allocated Federal /Non-Federal Activity), that appear to be apparent independent expenditures that contain express advocacy and should have been disclosed on Schedule E, Line 24 (Itemized Independent Expenditures).

Additionally, MRP did not provide sufficient documentation, pertaining to dissemination dates, to verify whether 24/48-hour reports were required to be filed for the apparent independent expenditures totaling \$38,940.

If MRP believes that the apparent independent expenditures, totaling \$38,940, did not require reporting as independent expenditures, the Audit staff recommends that MRP provide documentation to support its conclusion. Absent such documentation, the Audit staff recommends that MRP 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 MRP provide documentation to support the date of public dissemination for each communication to determine whether a filing of a 24/48-hour report was required. (For more detail, see p. 8.)

Part IV

Findings and Recommendations

Finding 1. Misstatement of Financial Activity

Summary

During audit fieldwork, a comparison of MRP's reported financial activity with its bank records revealed a misstatement of receipts and disbursements for calendar year 2015. Specifically, MRP understated its receipts and disbursements by \$10,606 and \$14,808, respectively. The Audit staff recommends that MRP amend its disclosure reports or file a Form 99 (Miscellaneous Text Submission) to correct the misstatements.

Legal Standard

Contents of Federal 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

During audit fieldwork, the Audit staff reconciled MRP's reported financial activity with its bank records for calendar years 2015 and 2016. The reconciliation identified that MRP misstated receipts and disbursements for 2015. The following chart details the discrepancies between MRP's disclosure reports and bank activity. The succeeding paragraphs explain why the discrepancies occurred.

2015 Committee Activity			
	Reported	Bank Records	Discrepancy
Beginning Cash Balance @ January 1, 2015	\$50,087	\$42,307	\$7,780 Overstated
Receipts	\$394,175	\$404,781	\$10,606 Understated
Disbursements	\$403,626	\$418,434	\$14,808 Understated
Ending Cash Balance @ December 31, 2015	\$28,624 ²	\$28,654	\$30 Understated

² The reported ending cash balance does not equal reported beginning cash balance plus reported receipts minus reported disbursements.

The reported 2015 beginning cash balance was over reported by \$7,780 likely resulting from prior period discrepancies.

The understatement of receipts resulted from the following:

• Transfer from a Non-federal account not reported	\$7,830
• In-kind contribution not reported as a receipt	2,868
• Unexplained differences	<u>(92)</u>
Net Understatement of Receipts	<u>\$10,606</u>

The understatement of disbursements resulted from the following:

• Disbursements not reported	\$11,932
• In-kind contribution not reported as a disbursement	2,868
• Unexplained differences	<u>8</u>
Understatement of Disbursements	<u>\$14,808</u>

B. Interim Audit Report & Audit Division Recommendation

The Audit staff discussed this matter with MRP representatives during the exit conference and provided schedules detailing the misstatements. MRP representatives did not provide any comments.

The Audit staff recommends that, within 30 calendar days of service of this report, MRP amend its disclosure reports or file a Form 99³ to correct the misstatements noted above, and reconcile the cash balance on its most recent filed report to include these adjustments and correct any subsequent discrepancies.

Finding 2. Reporting of Debts and Obligations

Summary

During audit fieldwork, the Audit staff noted that MRP failed to disclose debts and obligations owed to 10 vendors totaling \$152,931. The Audit staff recommends, absent documentation demonstrating that these expenditures did not require reporting on Schedule D (Debts and Obligations), that MRP amend its reports or file a Form 99 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

³ If the MRP 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.

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. 11 CFR §104.11(b).

Facts and Analysis

A. Facts

During audit fieldwork, the Audit staff reviewed MRP's disbursements records and disclosure reports for proper reporting of debts and obligations. This review identified debts owed to ten vendors totaling \$152,931⁴ that MRP failed to report on Schedule D during the audit period. Based on a review of the records, these vendors provided MRP with signs, stickers, printed membership/fundraising letters and cards, audio and video equipment, food and venue for events, financial services, national convention materials, transportation, compliance services, postage, and flower arrangements. MRP reported debt totaling \$134,142 on Schedule D during the audit cycle. 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 13 to 1047 days.

B. Interim Audit Report & Audit Division Recommendation

The Audit staff discussed this matter at the exit conference and provided MRP representatives schedules detailing the transactions requiring disclosure on Schedule D. MRP representatives inquired about the definition of debts and whether monthly recurring expenses would be considered debt if not paid within a specific timeframe or crossing reporting periods. The Audit staff noted that none of the errors were recurring expenses. In response to the exit conference, MRP provided no further comments.

The Audit staff recommends, that within 30 calendar days of service of this report, MRP provide additional documents demonstrating that these transactions were not obligations which required reporting on Schedule D. Absent such documentation, the Audit staff recommends that MRP amend its reports or file a Form 99⁵ to disclose these debts and obligations on Schedule D.

⁴ Each debt in this amount was counted once even if it required disclosure over multiple periods.

⁵ If the committee 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.

Finding 3. Reporting of Apparent Independent Expenditures

Summary

During audit fieldwork, the Audit staff reviewed expenditures totaling \$38,940, that MRP disclosed on Schedule B, Line 21(b) (Other Federal Operating Expenditures) and Schedule H4 (Disbursements for Allocated Federal /Non-Federal Activity), that appear to be apparent independent expenditures that contain express advocacy and should have been disclosed on Schedule E, Line 24 (Itemized Independent Expenditures).

Additionally, MRP did not provide sufficient documentation, pertaining to dissemination dates, to verify whether 24/48-hour reports were required to be filed for the apparent independent expenditures totaling \$38,940.

If MRP believes that the apparent independent expenditures, totaling \$38,940, did not require reporting as independent expenditures, the Audit staff recommends that MRP provide documentation to support its conclusion. Absent such documentation, the Audit staff recommends that MRP 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 MRP provide documentation to support the date of public dissemination for each communication to determine whether a filing of a 24/48-hour report 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.

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 line (b) on Schedule E. 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 each time additional independent expenditures aggregate \$1,000 or more. 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. Independent Expenditure Reports (48-Hour Reports). Any independent expenditures aggregating \$10,000 or more with respect to any given election, at any time during a calendar year, up to and including the 20th day before an election, must be disclosed within 48 hours each time the expenditures aggregate \$10,000 or more. The 48-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 \$10,000. The reports must be filed with the Commission within 48 hours after the expenditure is made. 11 CFR §§104.4(f) and 104.5(g)(1).

E. 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. Reporting of Apparent Independent Expenditures

1. Facts

During audit fieldwork, the Audit staff reviewed disbursements to ensure proper reporting. The Audit staff noted that MRP did not disclose any independent expenditures on Schedule E, however, it made expenditures totaling \$38,940 and disclosed them on Schedule B, Line 21(b), and Schedule H4. These expenditures were for eight fundraising mailers, which contained express advocacy. A breakdown analysis for these expenditures is as follows:

a. Apparent Independent Expenditures Reported as Disbursements for Allocated Federal /Non-federal Activity (Associated Mailer and Invoice Provided under 11 CFR §100.22(a))

MRP made seven disbursements for three apparent independent expenditures totaling \$16,547 for which it provided copies of the mailers with associated invoices and cancelled checks. The mailers contained the following phrases, “If we unite to support Donald Trump,” “Stop Hillary,” and “You can make a difference to support Donald Trump and to stop Hillary Clinton.” All of these communications contained language expressly advocating the election or defeat of a clearly identified candidate, as defined under 11 CFR §100.22(a).

b. Apparent Independent Expenditures Reported as Operating Expenditures and Disbursements for Allocated Federal /Non-Federal (Associated Mailer and Invoice Provided under 11 CFR §100.22(b))

MRP made 12 disbursements for five mailers totaling \$22,393, for which it provided copies of the mailers with associated invoices and cancelled checks. The mailers contained the following phrases, “...make sure that Donald Trump’s message of Making America Great Again can be delivered,” “Donald Trump on the other hand will nominate Supreme Court Justices who will protect the Constitution,” “...make sure Republicans in Mississippi turn out to vote and send Donald Trump to a landslide victory here,” “We must elect a Republican as the 45th President of the United States,” and “Here is the candidate I support as our 2016 Republican nominee for President.” Based on the definition of express advocacy under 11 CFR §100.22(b), the Audit staff believes that these mailers could only be interpreted by a reasonable person as advocating the election or defeat of a clearly identified candidate.

2. Interim Audit Report & Audit Division Recommendation

At the exit conference, the Audit staff presented MRP a schedule detailing these expenditures. MRP representatives did not have any comments.

The Audit staff recommends that, within 30 calendar days of service of this report, MRP provide documentation that apparent independent expenditures, totaling \$38,940, did not require reporting as independent expenditures. Absent

such documentation, the Audit staff recommends that MRP amend its reports to disclose these disbursements as independent expenditures on Schedule E and submit procedures for reporting independent expenditures.

B. Failure to File 24/48-Hour Reports for Apparent Independent Expenditures

1. Facts

In addition to not reporting any independent expenditures during the audit period, MRP did not file any 24 or 48-hour reports. Therefore, the apparent independent expenditures identified above, may also have required such filings.

2. Interim Audit Report & Audit Division Recommendation

At the exit conference, the Audit staff discussed with the MRP representatives the requirements for filing 24/48-hour reports. MRP representatives did not provide any comments.

Absent documentation that the apparent independent expenditures, totaling \$38,940, did not require reporting as independent expenditures, the Audit staff recommends that, within 30 calendar days of service of this report, MRP provide documentation to support the date of public dissemination for each mailer to determine whether a 24/48-hour report was required.