



FEDERAL ELECTION COMMISSION  
WASHINGTON, D.C. 20463

May 29, 2001

MEMORANDUM

TO: RON M. HARRIS  
PRESS OFFICER  
PRESS OFFICE

FROM: ROBERT J. COSTA  
ASSISTANT STAFF DIRECTOR  
AUDIT DIVISION

A handwritten signature in black ink, appearing to be "RC" or similar initials, written over the name "ROBERT J. COSTA" in the "FROM" field.

SUBJECT: PUBLIC ISSUANCE OF THE FINAL AUDIT REPORT ON  
THE DEMOCRATIC PARTY OF ILLINOIS

Attached please find a copy of the final audit report and related documents on the Democratic Party of Illinois, which was approved by the Commission on MAY 18, 2001.

Informational copies of the report have been received by all parties involved and the report may be released to the public.

Attachment as stated

cc: Office of General Counsel  
Office of Public Disclosure  
Reports Analysis Division  
FEC Library

22.07.025.2632

2007.02.29.09.26.33

REPORT OF THE AUDIT DIVISION  
ON THE  
**Democratic Party of Illinois**

Approved May 18, 2001



FEDERAL ELECTION COMMISSION

999 E STREET, N.W.

WASHINGTON, D.C.

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**DEMOCRATIC PARTY OF ILLINOIS**

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FEDERAL ELECTION COMMISSION  
WASHINGTON, D. C. 20463

**REPORT OF THE AUDIT DIVISION  
ON THE  
DEMOCRATIC PARTY OF ILLINOIS**

**EXECUTIVE SUMMARY**

The Democratic Party of Illinois (the Committee) registered with the Federal Election Commission on May 4, 1983 as the Democratic State Central Committee of Illinois. The Committee changed its name to the Democratic Party of Illinois in 1990.

The audit was conducted pursuant to Section 438(b) of Title 2 of the United States Code, which states, in part, that the Commission may conduct audits of any political committee whose reports fail to meet the threshold level of compliance set by the Commission.

The period covered by the audit was January 1, 1997 through December 31, 1998. The findings of the audit were presented to the Committee at an exit conference and later, in an interim audit report. The Committee's responses to those findings are included in the final audit report.

The following is an overview of the findings contained in the final audit report.

**APPARENT CORPORATE CONTRIBUTIONS** — 2 U.S.C. §441b(a); 11 CFR §§103.3(b)(2) and (4). The audit identified 24 contributions totaling \$38,800 received from 22 incorporated entities. In response to the interim audit report, the Committee stated that refunds totaling \$38,400 were made to the donors. The Committee was unable to make refunds to two donors for contributions totaling \$400. For these, the Committee issued checks to the US Treasury.<sup>1</sup>

**INACCURATE DISCLOSURE OF EXPENDITURES** — 11 CFR §106.5(g)(1); 11 CFR §§106.5(a)(2)(i) and (iv); 11 CFR §§104.10(b)(1)(i) and (ii). The Committee incorrectly reported on Schedule B (Other Federal Operating Expenditures) a \$48,000 disbursement for GOTV Election Day activities and two other GOTV expenditures in the amounts of \$30,000 and \$145,000. These allocable expenses were partially funded by the Committee's non-federal account and should have been reported on Schedule H-4 (Joint Federal/Non-federal Activity Schedule). In response to the interim audit report, the Committee filed an amended report to correct the public record.

<sup>1</sup> Subsequent to the Commission's approval of the Final Audit Report, the Committee provided copies of negotiated checks totaling \$38,200.

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**NON-FEDERAL FUNDS DEPOSITED INTO FEDERAL ACCOUNTS – OFFSETS OF ALLOCATED EXPENDITURES**— 11 CFR §102.5(a)(1)(i); 11CFR §106.5(a)(2)(iv); 11 CFR §§106.5(g)(1)(i) and (2)(B). The Committee received and deposited into its federal account(s) three offsets to expenditures totaling \$15,557. The original disbursements had been paid on an allocated basis using federal and non-federal funds. The non-federal share of the offsets totaled \$11,196. The Committee had not reimbursed the non-federal account or made any adjustments to subsequent transfers from the non-federal account to account for these receipts. In response to the interim audit report, the Committee provided evidence that \$11,196 was transferred from the federal account to the non-federal account.



***REPORT OF THE AUDIT DIVISION  
ON THE  
DEMOCRATIC PARTY OF ILLINOIS***

**I. BACKGROUND**

**A. AUDIT AUTHORITY**

This report is based on an audit of the Democratic Party of Illinois (the Committee), undertaken by the Audit Division of the Federal Election Commission (the Commission) in accordance with the provisions of the Federal Election Campaign Act of 1971, as amended (the Act). The audit was conducted pursuant to Section 438(b) of Title 2 of the United States Code, which states, in part, that the Commission may conduct audits and field investigations of any political committee required to file a report under section 434 of this title. Prior to conducting any audit under this subsection, the Commission shall perform an internal review of reports filed by the selected committees to determine if reports filed by a particular committee meet the threshold requirements for substantial compliance with the Act.

**B. AUDIT COVERAGE**

The audit covered the period January 1, 1997 through December 31, 1998. During this period, the Committee reported a beginning cash balance of \$35,996; total receipts for the period of \$4,833,250; total disbursements for the period of \$4,767,717; and an ending cash balance of \$101,529.<sup>1</sup>

According to reports filed with the state of Illinois detailing its non-federal financial activity for the audit period, the Committee's receipts totaled \$9,370,326 and disbursements totaled \$9,162,000; and the cash balance at December 31, 1998 was \$220,705.

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<sup>1</sup> All figures in the report have been rounded to the nearest dollar.

2007-025-2637

### C. CAMPAIGN ORGANIZATION

The Committee registered with the Federal Election Commission on May 4, 1983 as the Democratic State Central Committee of Illinois. On July 2, 1990, the Committee filed an amended Statement of Organization and changed its name to the Democratic Party of Illinois. The Treasurer for the Committee at the beginning of the audit period was Mr. John A. Gianulus. On April 15, 1998, he was succeeded by Mr. Michael Kasper, the current Treasurer. The Committee maintains its headquarters in Springfield, Illinois.

To manage its financial activity, the Committee maintained 12 bank accounts during the audit period: 7 federal and 5 non-federal. The Committee made its allocated expenditures from its federal account, which was reimbursed with transfers made from its non-federal accounts. A separate allocation account was not used. The Committee's receipts were composed of contributions from individuals, political party committees, other political committees (such as PACs), transfers from affiliated committees, offsets to operating expenditures (such as refunds and rebates), and transfers from non-federal accounts for joint activity.

### D. AUDIT SCOPE AND PROCEDURES

The audit included testing of the following categories:

1. the receipt of contributions or loans in excess of the statutory limitations;
2. the receipt of contributions from prohibited sources, such as those from corporations or labor organizations (see Finding II.A.);
3. proper disclosure of contributions from individuals, political committees and other entities, to include the itemization of contributions when required, as well as, the completeness and accuracy of the information disclosed;
4. proper disclosure of disbursements including the itemization of disbursements when required, as well as, the completeness and accuracy of the information disclosed (see Finding II.B.);
5. proper disclosure of campaign debts and obligations, including loans;
6. the accuracy of total reported receipts, disbursements and cash balances as compared to bank records;
7. adequate recordkeeping of committee transactions;

8. proper reporting and funding of allocable expenses (see Finding II.C.);
9. other audit procedures that were deemed necessary in the situation.

Unless specifically discussed below, no material non-compliance was detected. It should be noted that the Commission may pursue any of the matters discussed in this report in an enforcement action.

While the Committee met the minimum requirements for recordkeeping, certain materials that are generally provided during audits were, according to Committee representatives, not in their possession. Materials such as bank reconciliations and workpapers in support of transfers from non-federal accounts used to pay allocated expenses were not provided for 1997 or for January through March 1998. Consequently, the Audit staff was unable to verify reported beginning cash on hand, to identify total outstanding checks at the beginning of the audit period or to verify whether certain transfers from the non-federal to federal accounts were made timely.

## II. AUDIT FINDINGS AND RECOMMENDATIONS

### A. APPARENT CORPORATE CONTRIBUTIONS

Section 441b(a) of Title 2 of the United States Code states, in part, that is unlawful for any corporation to make a contribution or expenditure in connection with any election to political office or in connection with any election at which a Representative in Congress is to be voted for or in connection with any primary election held to select candidates for the foregoing office, and for any candidate, political committee or other person to knowingly accept or receive any contribution prohibited by this section.

Sections 103.3(b)(2) and (4) of Title 11 of the Code of Federal Regulations state, in part, that the treasurer shall refund any contribution determined to be illegal to the contributor within thirty days of the date on which the illegality is discovered. Further, any contribution which appears to be illegal and which is deposited into a campaign depository shall not be used for any disbursements by the political committee until the contribution has been determined to be legal. The political committee must either establish a separate account in a campaign depository for such contributions or maintain sufficient funds to make all such refunds.

Our review of source documentation made available during fieldwork identified 24 apparent corporate contributions, amounting to \$38,800<sup>2</sup>, received from 22

<sup>2</sup> Reported cash balances were in excess of the value of the apparent corporate contributions held in the Committee's account(s). See 11 CFR §103.3(b)(4).



entities verified through the Illinois Secretary of State's office as corporations at the time the contributions were made. Most, of the contributions were drawn on the accounts of incorporated law firms or the accounts of named individuals (e.g., Richard B. Last Name, LTD.). No documentation was located within the Committee's files relative to the permissibility of these contributions.

This matter was discussed with the Committee's representative during fieldwork and at the exit conference held on August 9, 2000; a schedule of the items along with documentation obtained from the Secretary of State's office was provided. Following the exit conference, the Committee responded twice to this issue. First, it provided a copy of a form that was described as the "script Mike<sup>3</sup> used." It stated:

"I hereby certify that I had a telephone conversation with the above referenced member of the partnership indicated herein on the date set forth and that the partnership attributed the contribution amongst the partners as indicated herein, and that the partner with whom I spoke indicated that such attribution complied with the Federal Election Campaign Act."

Secondly, a Committee representative stated that the contributors who had made contributions using corporate checks had been contacted to make certain that the funds contributed represented personal funds.

Based on the Committee's responses to this finding, it appears that the Committee was aware that the receipt of contributions from corporate sources was impermissible. However, neither response establishes that the contributions, which were made by checks drawn on accounts of corporations, were made from permissible funds, i.e., personal funds of the contributor.

In the interim audit report, the Audit staff recommended that the Committee provide documentation sufficient to demonstrate that the contributions in question were not from prohibited sources. Absent such a showing, the Audit staff recommended that the Committee refund the \$38,800 in contributions discussed above using funds from the Committee's federal account(s) and present evidence of such refunds (i.e., copies of the front and back of the negotiated checks).

If sufficient funds were not available, the amount of refunds due to each contributor must be itemized as a debt owed by the Committee on Schedule D, Debts and Obligations.

In response to the interim audit report, the Committee stated that it had refunded to the contributors all of the \$38,800 contributions with the exception of two: one in the amount of \$150, from Richard P. Bogusz who is now deceased, and another in

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<sup>3</sup> The reference to Mike is a reference to Mike Kaspar, the Party Treasurer.

the amount of \$250, from Robert J. Smoler, whose firm closed. For these two amounts, the Committee issued checks to the US Treasury.

Regarding the remaining \$38,400, the Committee did not provide copies of negotiated refund checks as requested by the Audit staff. Instead, the Committee provided copies of the original contribution checks totaling \$38,800 as well as copies of letters dated March 9, 2001, that accompanied refund checks to the 20 remaining contributors. The Committee stated that it would supply the Audit staff with copies of the negotiated refund checks once they clear the Committee's federal account(s). As of May 11, 2001, the check copies had not been provided.

## **B. INACCURATE DISCLOSURE OF EXPENDITURES**

Section 106.5(g)(1) of Title 11 of the Code of Federal Regulations states, in part, that committees that have established separate federal and non-federal accounts under 11 CFR 102.5(a)(1)(i) or (b)(1)(i) shall pay the expenses of joint federal and non-federal activities described in paragraph (a)(2) of this section according to paragraph (g)(1)(i), as follows: the committee shall pay the entire amount of an allocable expense from its federal account and shall transfer funds from its non-federal account to its federal account solely to cover the non-federal share of that allocable expense.

Sections 106.5(a)(2)(i) and (iv) of Title 11 of the Code of Federal Regulations state that committees that make disbursements in connection with federal and non-federal elections shall allocate expenses according to this section for the following categories of activity: administrative expenses including rent, utilities, office supplies, and salaries, except for such expenses directly attributable to a clearly identified candidate; and generic voter drives including voter identification, voter registration, and get-out-the-vote drives, or any other activities that urge the general public to register, vote or support candidates of a particular party or associated with a particular issue, without mentioning a specific candidate.

Sections 104.10(b)(1)(i) and (ii) of Title 11 of the Code of Federal Regulations state, in part, that a political committee that pays allocable expenses in accordance with 11 CFR 106.5(g) shall also report each disbursement from its federal account in payment for joint federal and non-federal expense or activity. In the first report in a calendar year disclosing a disbursement for administrative expenses or generic voter drives, as described in 11 CFR 106.5(a)(2), the committee shall state the allocation ratio to be applied to these categories of activity according to 11 CFR 106.5(d) and the manner in which it was derived. In each subsequent report in the calendar year itemizing an allocated disbursement for administrative expenses or generic voter drives the committee shall state the category of activity for which each allocated disbursement was made, and shall summarize the total amount spent by the federal and non-federal accounts that year, to date, for each such category.

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In late October 1998, the Committee opened an account at Amalgamated Bank of Chicago to fund its November 1998 election day volunteer GOTV activities. The account was funded by transfers from another federal account: \$26,000 on October 30<sup>th</sup>, \$15,000 on November 1<sup>st</sup> and \$10,000 on November 3<sup>rd</sup>. On November 2<sup>nd</sup> and 3<sup>rd</sup> the Committee withdrew from this account \$48,000 in the form of eleven hundred money orders totaling \$40,000 (500 in denominations of \$50 and 600 in denominations of \$25) and \$8,000 in cash. After the election, on November 9<sup>th</sup>, the Committee redeposited \$8,800 consisting of \$6,000 in money orders and \$2,800 in cash. The net of these transactions, \$39,200, was reported on Schedule B for line 21b (Other Federal Operating Expenditures), on November 23<sup>rd</sup> and described as "UNITEMIZED EXPEN-POST ELECEXP."

Documentation supporting the Committee's transfers of non-federal funds for allocated expenses indicated that specific amounts were transferred to cover the non-federal component of the above described project and two other GOTV expenditures.<sup>4</sup> The other GOTV expenditures in the amounts of \$30,000 and \$145,250 were made to Gordon & Schwenkmeyer. These disbursements were itemized, incorrectly, on Schedule B of the Committee's Post General report (10/15/98 through 11/23/98). All three of these disbursements should have been itemized on Schedule H-4 (Joint Federal/Non-federal Activity Schedule) in order that the non-federal component of the funding be reported as required by 11 CFR 104.10(b)(1)(ii).

In addition to being itemized on the incorrect schedule, the date and amount of the withdrawal of money orders and cash for election day GOTV expenses were not correctly reported. The expenditures were made on November 3<sup>rd</sup>, not November 23<sup>rd</sup>, and rather than reporting the net figure of \$39,200 (\$48,000 withdrawn less the \$8,800 redeposited), the total amount withdrawn, \$48,000, should have been reported as the disbursement.<sup>5</sup>

In the interim audit report, the Audit staff recommended that the Committee file an amended report for 1998, including an amended Summary Page and Detailed Summary Page; an amended Schedule B with amounts misreported, corrected; and a Schedule H-4 to disclose correctly, disbursements to Gordon & Schwenkmeyer and for election day GOTV activities.

In response to the interim audit report, the Committee filed the requested amended report and disclosed on Schedule A the redeposit of \$8,800 on November 9, 1998, amended Schedule B by eliminating the incorrectly reported amounts, and amended Schedule H-4 by disclosing the \$48,000 disbursement for expenses paid to volunteers on

<sup>4</sup> Sufficient non-federal funds were transferred from the Committee's non-federal accounts to pay these expenses according to its allocation ratio for administrative and generic voter drive expenses: 22% federal and 78% non-federal.

<sup>5</sup> The apparent over reporting of this transaction will be balanced by the request that the Committee report the redeposit of \$8,800 as an offset to expenditures. (See Finding II.C.)

November 1, 1998 and the other GOTV expenditures in the amounts of \$30,000 and \$145,250 made to Gordon & Schwenkmeyer.

**C. NON-FEDERAL FUNDS DEPOSITED INTO FEDERAL ACCOUNTS -  
OFFSETS OF ALLOCATED EXPENDITURES**

Section 102.5(a)(1)(i) of Title 11 of the Code of Federal Regulations states, in part, that political committees which finance political activity in connection with both federal and non-federal elections shall establish a separate federal account. Only funds subject to the prohibitions and limitations of the Act shall be deposited in such separate federal account.

Section 106.5(a)(2)(iv) of Title 11 of the Code of Federal Regulations states, in part, that political committees that make disbursements in connection with federal and non-federal elections shall allocate expenses according to this section for the following categories of activity: Generic voter drives including voter identification, voter registration, and get-out-the-vote drives, or any other activities that urge the general public to register, vote or support candidates of a particular party or associated with a particular issue, without mentioning a specific candidate.

Sections 106.5(g)(1)(i) and (2)(B) of Title 11 of the Code of Federal Regulations state, in part, that political committees that have established separate federal and non-federal accounts shall pay the entire amount of an allocable expense from its federal account and shall transfer funds from its non-federal account to its federal account solely to cover the non-federal share of that allocable expense and that the timing of the transfer of funds from its non-federal account may not be more than ten days in advance nor more than sixty days after the payments for which they are designated are made.

Committees that have federal and non-federal accounts may pay certain expenses on an allocated basis. These disbursements must be made from either a federal account or an allocation account that is considered a federal account. To reimburse for the non-federal portion of the expenses, the committee is permitted to transfer funds from its non-federal account to one of its federal accounts. When a refund or rebate of an allocated expense is received, the amount received should be credited between federal and non-federal accounts on a pro rata basis equal to the allocation ratio used to make the original disbursement. Advisory Opinion (AO) 1995-22 discusses methods for reporting refunds and rebates of allocable expenses.

The Audit staff's review of offsets to operating expenditures revealed that the Committee received and deposited into its federal account(s) three offsets totaling \$15,557. Each of the original disbursements had been paid on an allocated basis, using federal and non-federal funds. Applying the allocation ratios used to make the original disbursement to the amounts received from each vendor, the Audit staff calculated that the non-federal share of the offsets totaled \$11,196. The Committee did not reimburse

the non-federal account this amount or otherwise make any adjustments to subsequent transfers from the non-federal accounts to account for these receipts.

One of the three offsets was not reported - the November 9, 1998 redeposit of money orders and cash in the amount of \$8,800 discussed above at Finding II.B.

At the exit conference, the Audit staff provided the Committee a schedule of the offsets that had been deposited into its federal accounts.

In the interim audit report, the Audit staff recommended that the Committee:

- a) provide evidence that the non-federal account subsequently received from the federal account its share of the offsets; or
- b) absent such a demonstration, transfer to the non-federal account \$11,196, representing the non-federal share of the offsets and provide evidence of such transfer (i.e., a copy of the front and back of the negotiated check used to make the transfer); and
- c) file an amendment for 1998 to include an amended Summary Page and Detailed Summary Page and a Schedule A itemizing the November 9 offset.

If sufficient funds were not available to make the transfer, the amount of funds due to the non-federal account must be itemized as a debt owed by the Committee on Schedule D, Debts and Obligations.

In response to the interim audit report, the Committee provided a copy of the negotiated check used to make the transfer of \$11,196 from the federal account to the non-federal account as well as the deposit slip for the non-federal account. As previously noted, the Committee filed an amended Schedule A that disclosed the November 9, 1998 offset of \$8,800.



FEDERAL ELECTION COMMISSION  
WASHINGTON, DC 20463

May 21, 2001

Mr. Michael Kasper, Treasurer  
Democratic Party of Illinois  
PO Box 518  
Springfield, IL 62705

Dear Mr. Kasper:

Attached please find the Final Audit Report on Democratic Party of Illinois. The Commission approved the report on May 18, 2001.

The Commission approved Final Audit Report will be placed on the public record on May 29, 2001. Should you have any questions regarding the public release of the report, please contact the Commission's Press Office at (202) 694-1220. Any questions you have related to matters covered during the audit or in the report should be directed to Marty Kuest or Wanda Thomas of the Audit Division at (202) 694-1200 or toll free at (800) 424-9530.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert J. Costa".

Robert J. Costa  
Assistant Staff Director  
Audit Division

Attachment as stated

cc: Dennis Kenny. CPA

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**CHRONOLOGY**

**DEMOCRATIC PARTY OF ILLNOIS**

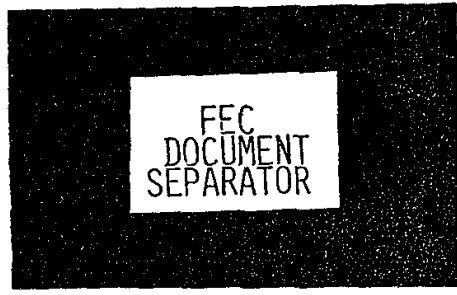
Audit Fieldwork	July 5, 2000 – July 28, 2000
Interim Audit Report to the Committee	February 12, 2001
Response Received to the Interim Audit Report	March 16, 2001
Final Audit Report Approved	May 18, 2001

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