



Preliminary Report of the Audit Division on Chris Dodd for President, Inc. January 24, 2007 – September 30, 2008

Why the Audit Was Done

Federal law requires the Commission to audit every political committee established by a candidate who receives public funds for the primary campaign.¹ The audit determines whether the candidate was entitled to all of the matching funds received, whether the campaign used the matching funds in accordance with the law, whether the candidate is entitled to additional matching funds, and whether the campaign otherwise complied with the limitations, prohibitions, and disclosure requirements of the election law.

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)

Chris Dodd for President, Inc. is the principal campaign committee of Christopher J. Dodd, a candidate for the Democratic Party's nomination for the office of President of the United States. The Committee is headquartered in West Hartford, CT. For more information, see chart on the Campaign Organization, p. 2.

Financial Activity (p. 3)

• Receipts	
○ Contributions from Individuals	\$ 9,848,996
○ Contributions from Political Committees	750,402
○ Transfers from Affiliated Committees	4,632,357
○ Loans Received	1,302,811
○ Matching Funds Received	1,961,742
○ Offsets to Operating Expenditures	127,012
○ Other Receipts	47,506
○ Total Receipts	\$ 18,670,826
• Disbursements	
○ Operating Expenditures	\$14,978,850
○ Loan Repayments	1,302,811
○ Transfers to Other Authorized Committees ²	507,910
○ Contribution Refunds	1,365,901
○ Total Disbursements	\$ 18,155,472

Findings and Recommendations (p. 4)

- Net Outstanding Campaign Obligations (Finding 1)
- Receipt of Prohibited Contribution and Contributions that Exceed Limits (Finding 2)
- Misstatement of Financial Activity (Finding 3)

¹ 26 U.S.C. §9038(a).

² This represents the transfer of general election contributions redesignated to the Candidate's Senate committee, Friends of Chris Dodd.

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January 24, 2007 – September 30, 2008



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Part I

Background

Authority for Audit

This report is based on an audit of Chris Dodd for President, Inc. (CDFP), undertaken by the Audit Division of the Federal Election Commission (the Commission) as mandated by Section 9038(a) of Title 26 of the United States Code. That section states "After each matching payment period, the Commission shall conduct a thorough examination and audit of the qualified campaign expenses of every candidate and his authorized committees who received [matching] payments under section 9037." Also, Section 9039(b) of the United States Code and Section 9038.1(a)(2) of the Commission's Regulations state that the Commission may conduct other examinations and audits from time to time as it deems necessary.

Scope of Audit

This audit examined:

1. The receipt of excessive contributions and loans.
2. The receipt of contributions from prohibited sources.
3. The receipt of transfers from other authorized committees.
4. The disclosure of contributions and transfers received.
5. The disclosure of disbursements, debts and obligations.
6. The recordkeeping process and completeness of records.
7. The consistency between reported figures and bank records.
8. The accuracy of the Statement of Net Outstanding Campaign Obligations.
9. The campaign's compliance with spending limitations.
10. Other campaign operations necessary to the review.

Inventory of Campaign Records

The Audit staff routinely conducts an inventory of campaign records before it begins the audit fieldwork. CDFP's records were materially complete and the fieldwork began immediately.

Part II

Overview of Campaign

Campaign Organization

Important Dates	Chris Dodd for President, Inc.
• Date of Registration	January 11, 2007
• Eligibility Period	November 26, 2007 - January 3, 2008 ³
• Audit Coverage	January 24, 2007 – September 30, 2008 ⁴
Headquarters	West Hartford, Connecticut
Bank Information	
• Bank Depositories	Two
• Bank Accounts	One checking, two investment
Treasurer	
• Treasurer When Audit Was Conducted	Kathryn Damato
• Treasurer During Period Covered by Audit	Kathryn Damato
Management Information	
• Attended FEC Campaign Finance Seminar	Yes
• Used Commonly Available Campaign Management Software Package	Yes
• Who Handled Accounting and Recordkeeping Tasks	Paid staff

³ The period during which the candidate was eligible for matching funds began on the date of certification of his matching fund eligibility and ended on the date the candidate announced his withdrawal from the campaign. See 11 CFR §9033.

⁴ Limited reviews of receipts and expenditures were performed after September 30, 2008, to determine whether the candidate was eligible to receive additional matching funds.

Overview of Financial Activity (Audited Amounts)

Cash on hand @ January 24, 2007	\$ 0
o Contributions from Individuals	\$ 9,848,996 ⁵
o Contributions from Political Committees	750,402
o Transfers from Affiliated Committees	4,632,357
o Loans Received	1,302,811
o Matching Funds Received	1,961,742 ⁶
o Offsets to Operating Expenditures	127,012
o Other Receipts	47,506
Total Receipts	\$ 18,670,826
o Operating Expenditures	\$ 14,978,850
o Loan Repayments	1,302,811
o Transfers to Other Authorized Committee	507,910 ⁷
o Contribution Refunds	1,365,901
Total Disbursements	\$ 18,155,472
Cash on hand @ September 30, 2008	\$ 515,354

⁵ Approximately 25,000 contributions from more than 19,200 individuals.

⁶ As of September 30, 2008, CDFP had made 4 matching fund submissions totaling \$1,999,514 of which \$1,961,742 was certified by the Commission and paid to CDFP. This represents 9% of the maximum entitlement (\$21,025,000) a 2008 Presidential candidate could receive.

⁷ This represents the transfer of general election contributions redesignated to the Candidate's Senate committee, Friends of Chris Dodd.

Part III

Summaries

Findings and Recommendations

Finding 1. Net Outstanding Campaign Obligations

The Audit staff's review of CDFP's financial activity through December 31, 2008 and estimated winding down costs indicated that the candidate did not receive matching fund payments in excess of his entitlement. (For more detail, see p. 5)

Finding 2. Receipt of Prohibited Contribution and Contributions that Exceed Limits

After reviewing all contributions from other political committees, it appears that CDFP received a prohibited contribution of \$15,423 from the International Association of Firefighters (IAFF) which resulted from the rental of a bus/recreational vehicle (RV) decorated to identify Senator Dodd's Presidential campaign. The RV was provided to CDFP for its use just prior to the Iowa caucus. This prohibited contribution was untimely resolved by CDFP. CDFP also failed to resolve excessive contributions from other political committees totaling \$51,000. In addition, a further review of General election contributions indicated that CDFP received contributions totaling \$244,050 for which it has not obtained the required redesignation letters necessary to transfer these funds to the candidate's Senatorial Committee, Friends of Chris Dodd (FOCD), nor made appropriate refunds. The Audit staff recommends that CDFP provide evidence that the contributions are not prohibited, not excessive, or were resolved in a timely manner. Absent such a demonstration, CDFP should make appropriate refunds, or a payment of \$295,050 (\$51,000 + \$244,050), or a lesser amount based on CDFP's response, to the U.S. Treasury. (For more detail, see p. 7)

Finding 3. Misstatement of Financial Activity

A comparison of reported figures to bank records revealed that for 2008, CDFP understated its receipts by \$355,240 and overstated its disbursements by \$190,935. The Audit staff recommends that CDFP amend its disclosure reports to correct the misstatements for 2008. (For more detail, see p. 11)

Summary of Amounts Potentially Owed to the U.S. Treasury

- | | | |
|-------------|----------------------------------------------------------|------------|
| • Finding 2 | Receipt of Contributions that Exceed Limits – Unresolved | \$ 295,050 |
|-------------|----------------------------------------------------------|------------|

Part IV

Findings and Recommendations

Finding 1. Net Outstanding Campaign Obligations

Summary

The Audit staff's review of CDFP's financial activity through December 31, 2008 and estimated winding down costs indicated that the candidate did not receive matching fund payments in excess of his entitlement.

Legal Standard

- A. Net Outstanding Campaign Obligations (NOCO).** Within 15 days after the candidate's date of ineligibility, the candidate must submit a statement of "net outstanding campaign obligations". This statement must contain, among other things:
- The total of all committee assets including cash on hand, amounts owed to the committee and capital assets listed at their fair market value;
 - The total of all outstanding obligations for qualified campaign expenses; and
 - An estimate of necessary winding-down costs. 11 CFR §9034.5(a).
- B. Entitlement to Matching Payments after Date of Ineligibility.** If, on the date of ineligibility, a candidate has net outstanding campaign obligations as defined under 11 CFR §9034.5, that candidate may continue to receive matching payments provided that he or she still has net outstanding campaign debts on the day when the matching payments are made. 11 CFR §9034.1(b).

Facts and Analysis

The Candidate's date of ineligibility (DOI) was January 3, 2008. The Audit staff reviewed CDFP's financial activity through December 31, 2009, analyzed estimated winding down costs, and prepared the Statement of Net Outstanding Campaign Obligations that appears on the next page.

Chris Dodd for President, Inc.
Statement of Net Outstanding Campaign Obligations
As of January 3, 2008
Prepared through December 31, 2009

Assets

Primary Election Cash in Bank	\$ 271,389	
General Election Cash in Bank	1,706,575	
Accounts Receivable	46,899	
Capital Assets	<u>8,407</u>	
Total Assets		\$2,033,270

Liabilities

Primary Election Accounts Payable	\$ 542,065	
General Election Accounts Payable	1,706,575	[a]
Loans Payable	1,302,811	
Winding Down Costs:		
Paid 1/4/08 – 12/31/09	\$ 1,077,271	
Estimated Winding Down Costs (1/1/10 - 12/31/10)	<u>238,000</u>	1,315,271 [b]
Amounts Payable to U.S. Treasury for:		
Unresolved Excessive Contributions (See Finding 2)	<u>51,000</u>	[c]
Total Liabilities		<u>4,917,722</u>
Net Outstanding Campaign Obligations (Deficit) as of January 3, 2008		<u>(\$2,884,452)</u>

Footnotes to NOCO Statement:

- [a] To ensure that the need to refund general election contributions had no impact on matching fund entitlement, the Audit staff adjusted this payable to match the general election cash in bank amount. Prior to DOI, CDFP received general election contributions of \$1,749,670; however, at DOI, the fair market value of the investment account in which these contributions were maintained was \$1,706,575, a loss of \$43,095. This loss and subsequent losses are the basis for the excessive contributions of \$244,050 discussed in Finding 2.
- [b] The Audit staff will review CDFP's disclosure reports to compare actual figures with the estimates and prepare adjustments accordingly.
- [c] This amount does not include unresolved excessive general election contributions of \$244,050.

Shown below are adjustments for funds received after January 3, 2008, through July 17, 2008 (the date of the last matching fund payment):

Net Outstanding Campaign Obligations (Deficit) as of 1/3/08	(\$2,884,452)
Private Contributions and Other Receipts Received 1/4/08 through 7/17/08	503,712
Matching Funds Received 1/4/08 through 7/17/08	1,961,741
Remaining Net Outstanding Campaign Obligations (Deficit) as of 7/17/08	(\$418,999)

As presented above, CDFP has not received matching fund payments in excess of its entitlement.

The Audit staff presented the NOCO to CDFP representatives. In its response, CDFP did not address the NOCO.

Preliminary Audit Report Recommendation

The Audit staff recommends that, within 60 calendar days of service of this report, CDFP demonstrate an adjustment(s) is required to any component of the NOCO statement or provide any other comments it so desires.

Finding 2. Receipt of Prohibited Contribution and Contributions that Exceed Limits

Summary

After reviewing all contributions from other political committees, it appears that CDFP received a prohibited contribution of \$15,423 from the International Association of Firefighters (IAFF) which resulted from the rental of a bus/recreational vehicle (RV) decorated to identify Senator Dodd's Presidential campaign. The RV was provided to CDFP for its use just prior to the Iowa caucus. This prohibited contribution was untimely resolved by CDFP. CDFP also failed to resolve excessive contributions from other political committees totaling \$51,000. In addition, a further review of General election contributions indicated that CDFP received contributions totaling \$244,050 for which it has not obtained the required redesignation letters necessary to transfer these funds to the candidate's Senatorial Committee, Friends of Chris Dodd (FOCD), nor made appropriate refunds. The Audit staff recommends that CDFP provide evidence that the contributions are not prohibited, not excessive, or were resolved in a timely manner. Absent such a demonstration, CDFP should make appropriate refunds, or a payment of \$295,050 (\$51,000 + \$244,050), or a lesser amount based on CDFP's response, to the U.S. Treasury.

Legal Standard

A. Authorized Committee Limits. An authorized committee may not receive more than a total of \$2,300 per election from any one person or \$5,000 per election from a multicandidate

political committee. 2 U.S.C. §441a(a)(1)(A), (2)(A) and (f); 11 CFR §§110.1(a) and (b) and 110.9.

B. Handling Contributions That Appear Excessive. If a committee receives a contribution that appears to be excessive, the committee must either:

- Return the questionable check to the donor; or
- Deposit the check into its federal account and:
 - o Keep enough money in the account to cover all potential refunds;
 - o Keep a written record explaining why the contribution may be illegal;
 - o Include this explanation on Schedule A if the contribution has to be itemized before its legality is established;
 - o Seek a redesignation of the excessive portion, following the instructions provided in the Commission regulations (see below for explanation of redesignation); and
 - o If the committee does not receive a proper redesignation within 60 days after receiving the excessive contribution, refund the excessive portion to the donor. 11 CFR §§103.3(h)(3), (4) and (5).

C. Redesignation of Excessive Contributions. When an authorized candidate committee receives an excessive contribution (or a contribution that exceeds the committee's net debts outstanding), the committee may ask the contributor to redesignate the excess portion of the contribution for use in another election. The committee must inform the contributor that:

1. The redesignation must be signed by the contributor;
2. The redesignation must be received by the committee within 60 days after the committee received the original contribution; and
3. The contributor may instead request a refund of the excessive amount. 11 CFR §110.1(b)(5).

Within 60 days after receiving the excessive contribution, the committee must either receive the proper redesignation or refund the excessive portion to the donor. 11 CFR §§103.3(b)(3) and 110.1(b)(5)(ii)(A). Further, a political committee must retain written records concerning the redesignation in order for it to be effective. 11 CFR §110.1(l)(5).

D. General Election Contributions. If a candidate is not a candidate in the general election, any contributions made for the general election shall be refunded to the contributors or redesignated in accordance with 11 CFR §§110.1(b)(5) or 110.2(b)(5), as appropriate.

E. Unreimbursed Value of Transportation. The unreimbursed value of transportation provided to any campaign traveler is an in-kind contribution from the service provider to the candidate committee on whose behalf the campaign traveler traveled. 11 CFR §100.93(b)(2).

F. Payment of Transportation. If a campaign traveler uses any other means of transportation, with the exception of an airplane, the campaign committee on whose behalf the travel is conducted, must pay the service provider within thirty calendar days after the date of receipt of the invoice for such travel, but not later than sixty calendar days after the date the travel began. 11 CFR §100.93(d).

G. Receipt of Prohibited Contribution from Labor Organizations. Political campaigns may not accept contributions made from the general treasury funds of labor organizations. 2 U.S.C. §441b.

Facts and Analysis

The Audit staff's review of all contributions from individuals and other political committees indicated that CDFP received a prohibited contribution and a significant number of excessive contributions. The contributions included:

- Receipt of prohibited contribution – CDFP was billed \$12,088 on February 12, 2008, by the International Association of Fire Fighters (IAFF) for a share of the cost of the rental of a bus/recreational vehicle (RV). The RV was rented for a period of 48 days from November 18, 2007 to January 4, 2008. It was decorated to identify Senator Dodd's Presidential campaign. The invoice from the IAFF indicated that CDFP used the RV for 18 of the 48 days in December 2007, through the date of ineligibility, and prorated the cost using a daily rate. The total cost of the rental for the 48 days was \$32,233, with \$15,423 representing the cost of the vehicle and \$16,810 was the cost of "wrapping" it to identify the campaign. The invoice requested that payment of \$12,088 be made within 60 days to the International Association of Firefighters Interested in Registration and Education PAC (FIREPAC), a separate segregated fund of the IAFF. In response to a discussion of this issue at the exit conference, CDFP representatives provided a copy of a reimbursement check, dated October 21, 2009, to IAFF FIREPAC for \$32,233.

In its December 2007 monthly report, FIREPAC disclosed making an independent expenditure⁸ on November 28, 2007, in support of Dodd for "RV Art & Wrapping" in the amount of \$16,810. When questioned about this matter, CDFP representatives stated that the IAFF initially paid for the RV to use as transportation to events involving communications with the IAFF's restricted class. They stated that FIREPAC paid to wrap the RV because it was a communication expressly advocating Senator Dodd's presidential candidacy, which had not been coordinated with CDFP. CDFP later sought to determine whether it could obtain the use of the wrapped RV from the IAFF for its own purposes. The IAFF made the RV available and CDFP used it just prior to the Iowa caucus. As mentioned above, the invoice was for a portion of the cost (\$12,088); however, CDFP paid the entire RV rental and wrapping cost of \$32,233. It should also be noted that CDFP's payment occurred more than 1 ½ years from the invoice date. After reporting the independent expenditure, FIREPAC disclosed a debt owed by CDFP in its March 2008 monthly report for the full cost of the RV (\$32,233) and continued to report this debt until the reimbursement was reported in its December 2009 monthly report⁹. In response to this issue, CDFP representatives simply stated that it paid both for the use of the bus and of the wrap to avoid receiving an in-kind contribution. In response to other inquiries from the Audit staff, CDFP representatives stated that it was their understanding that the IAFF paid the rental cost of the bus; that the same bus wrapping was utilized by both the IAFF

⁸ FIREPAC reported independent expenditures of approximately \$374,000 in support of CDFP.

⁹ This report notes that a reimbursement from CDFP was inadvertently deposited into its non-federal account, and the transfer will be reflected on the year-end report.

and CDFP; and, that they are not aware of any other expenses that were paid by FIREPAC relating to the use or wrap of the bus after CDFP acquired its use.

The Audit staff acknowledges that the payment of \$32,233 by CDFP was an attempt to rectify this matter. However, the rental portion of the RV cost (\$15,423), apparently paid by the IAFF, appears to be a prohibited contribution. Labor organizations are prohibited from making contributions to political campaigns. This was untimely resolved by CDFP as a result of the reimbursement made to FIREPAC noted above.

- Refunds of the excessive portion of contributions – The Audit staff identified three excessive contributions (totaling \$8,000) which had been timely refunded by CDFP; however, the refund checks never cleared CDFP's bank account. As such, these remain unresolved excessive contributions.
- Redesignation letter provided, but funds not transferred – There was one excessive contribution (for \$4,000) which CDFP presented a timely, completed redesignation letter. However, the contribution was never transferred to the candidate's Senatorial committee, Friends of Chris Dodd (FOCD), nor refunded. It should be noted that transferring the funds to FOCD would have resolved this issue. However, because the candidate is no longer seeking re-election to the Senate, the transfer may not be plausible. At this time, the Audit staff considers this an unresolved excessive contribution.
- No evidence of refund or redesignation provided – There are thirteen excessive contributions (totaling \$39,000) which CDFP failed to provide any evidence of a refund or redesignation. As such, these remain unresolved excessive contributions.
- General election contributions not resolved – CDFP had contributions designated for the General election totaling \$244,050¹⁰ for which it has not obtained the required redesignation letters necessary to transfer these funds to FOCD. In accordance with Advisory Opinion 2008-04 (AO), CDFP had six days from the receipt of the AO (dated September 2, 2008) to obtain redesignations and make refunds. Even if CDFP were to obtain the required redesignation letters, it lacks the funds to complete the transfer or refund. Until such letters are provided, the Audit staff considers these unresolved excessive contributions.

At the exit conference, the Audit staff provided CDFP representatives with a schedule outlining the excessive contributions. In its response, CDFP representatives provided the responses noted above.

Preliminary Audit Report Recommendation

The Audit staff recommends that, within 60 calendar days of service of this report, CDFP provide documentation demonstrating that it did not receive a prohibited contribution of

¹⁰ The Audit staff also noted that CDFP transferred general contributions (\$67,800) to FOCD for which redesignation letters were not provided and has redesignation letters for \$98,410 in contributions to be transferred, but insufficient funds to do so.

\$15,423 from the IAFF and that contributions of \$295,050 (\$8,000 + \$4,000 + \$39,000 + \$244,050) are not excessive. To demonstrate that it did not receive a prohibited contribution, CDFP should provide documentation verifying that IAFF did not pay for the rental portion of the RV. For the unresolved excessive contributions, such documentation should include copies of timely negotiated refund checks or timely signed and dated redesignation letters.

Absent such documentation, CDFP should make appropriate refunds to contributors and provide evidence of such action (copies of the front and back of negotiated refund checks) or make a payment of \$295,050 to the U.S. Treasury. Should documentation be presented that demonstrates any review exceptions are not prohibited or excessive contributions, the Audit staff will calculate a revised amount payable to the U.S. Treasury. This revised amount or the unrefunded portion thereof, is payable within 30 calendar days of service of the final audit report.

Finding 3. Misstatement of Financial Activity

Summary

A comparison of reported figures to bank records revealed that for 2008, CDFP understated its receipts by \$355,240 and overstated its disbursements by \$190,935. The Audit staff recommends that CDFP amend its disclosure reports to correct the misstatements for 2008.

Legal Standard

Contents of Reports. Each report must disclose:

- The amount of cash on hand at the beginning and end of the reporting period;
- The total amount of receipts for the reporting period and for the election cycle; and
- The total amount of disbursements for the reporting period and for the election cycle; and
- Certain transactions that require itemization on Schedule A (Itemized Receipts) or Schedule B (Itemized Disbursements). 2 U.S.C. §434(b)(1), (2), (3), (4) and (5).

Facts and Analysis

The Audit staff reconciled reported activity to bank records for 2008. The following chart outlines the discrepancies for the beginning cash balances, receipts, disbursements, and the ending cash balances. The succeeding paragraphs explain why the differences occurred, if known.

2008 Committee Activity			
	Reported	Bank Records	Discrepancy
Opening Cash Balance @ January 1, 2008	\$ 2,489,560	\$ 2,456,875	\$ 32,685 overstated
Receipts	\$ 1,910,177	\$ 2,265,417	\$ 355,240 understated
Disbursements	\$ 4,397,873	\$ 4,206,938	\$ 190,935 overstated
Ending Cash Balance @ September 30, 2008	\$ 515,970 ¹¹	\$ 515,354	\$ 616 overstated

The overstatement of opening cash on hand (\$32,685) was the result of discrepancies that occurred in the previous year, 2007.

The understatement of receipts resulted from the following:

• Matching fund payment received 7/17/08, not reported	\$ 514,173
• Realized losses (investment accounts), not reported	(202,336)
• Vendor refund, not reported	5,876
• Offsets to operating expenditures, not reported	23,954
• Political Committee contributions, not reported	16,100
• Unexplained difference	<u>(2,527)</u>
Net understatement of receipts	<u>\$ 355,240</u>

The overstatement of disbursements resulted from the following:

• Loan repayment, over-reported	\$ (144,757)
• Disbursements and investment fees, not reported	239,950
• Net errors in reporting payroll and fees	41,733
• Transfer to the Candidate's Senate committee, over-reported	(351,210)
• Reported disbursements that actually cleared bank in Dec. '07	(3,300)
• Unexplained difference	<u>26,649</u>
Net overstatement of disbursements	<u>\$ (190,935)</u>

Regarding the over reporting of transfers to the Candidate's Senate committee (totaling \$351,210), CDFP representatives stated that it had instructed its broker to transfer the funds to the FOCD account, and it was the broker's delay in making the transfer that caused the reporting discrepancy. The reporting error could have been avoided if CDFP had not reported the transfer until the funds were actually transferred. Regarding the reporting of operating expenditures, CDFP representatives stated that many operating expenditures were not

¹¹ The reported ending cash balance is incorrect because CDFP decreased its beginning cash on hand by \$12,949 in its August 2008 Monthly Report and increased beginning cash on hand by \$527,055 in its October 2008 Monthly Report. The unexplained changes in cash may have been an attempt to correct the cash discrepancies that resulted from the misstatements of receipts and disbursements. Absent these incorrect adjustments by CDFP, the reported ending cash balance at September 30, 2008 would have been \$1,864.

reported because they were unaware of the data processing requirements for entering debts and obligations. As such, many debt payments were not disclosed in CDFP's reports. No other discrepancy (noted above) was addressed by CDFP representatives.

At the exit conference, the Audit staff discussed the misstatement and provided CDFP representatives with copies of the Audit staff's bank reconciliation. In its response, CDFP representatives presented the positions mentioned above. No adjustments were made by the Audit staff.

Preliminary Audit Report Recommendation

The Audit staff recommends that, within 60 calendar days of service of this report, CDFP amend its report to correct the misstatements for 2008.