



Interim Audit Report of the Audit Division on the Democratic Party of Arkansas

January 1, 2007 – December 31, 2008

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	\$ 620,492
○ Contributions from Other Political Committees	326,600
○ Transfers from Affiliated Party Committees	113,217
○ Transfers from Non-Federal Accounts	1,507,775
○ Other Receipts	119,305
Total Receipts	\$ 2,687,389
• Disbursements	
○ Operating Disbursements	\$ 2,217,050
○ Loan Repayments Made	31,319
○ Federal Election Activity	107,908
○ Transfers to Non-Federal Account	224,349
○ Other Disbursements	117,600
Total Disbursements	\$ 2,698,226

Finding and Recommendation (p. 3)

- Misstatement of Financial Activity

¹ 2 U.S.C. §438(b).

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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. Summary	
Finding and Recommendation	3
Part IV. Finding and Recommendation	
Misstatement of Financial Activity	4

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 2 U.S.C. §438(b), which permits the Commission to conduct audits and field investigations of any political committee that is required to file a report under 2 U.S.C. §434. 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. 2 U.S.C. §438(b).

Scope of Audit

Following Commission approved procedures, the Audit staff evaluated various risk factors and as a result, this audit examined:

1. The disclosure of disbursements, debts and obligations.
2. The disclosure of expenses allocated between federal and non-federal accounts.
3. The disclosure of individual contributors' occupation and name of employer.
4. The consistency between reported figures and bank records.
5. The completeness of records.
6. Other committee operations necessary to the review.

Part II

Overview of Committee

Committee Organization

Important Dates	Democratic Party of Arkansas
• Date of Registration	March 8, 1976
• Audit Coverage	January 1, 2007 – December 31, 2008
Headquarters	Little Rock, Arkansas
Bank Information	
• Bank Depositories	Four
• Bank Accounts	Seven Federal, Five Non-federal, One Levin
Treasurer	
• Treasurer When Audit Was Conducted	Karen Garcia
• Treasurer During Period Covered by Audit	Karen Garcia
Management Information	
• Attended FEC Campaign Finance Seminar	Yes
• Used Commonly Available Campaign Management Software Package	Yes
• Who Handled Accounting and Recordkeeping Tasks	Paid staff

Overview of Financial Activity (Audited Amounts)

Cash on hand @ January 1, 2007	\$ 71,616
Receipts	
○ Contributions from Individuals	\$ 620,492
○ Contributions from Other Political Committees	326,600
○ Transfers from Affiliated Party Committees	113,217
○ Transfers from Non-Federal Accounts	1,507,775
○ Other Receipts	119,305
Total Receipts	\$ 2,687,389
Disbursements	
○ Operating Disbursements	\$ 2,217,050
○ Loan Repayments Made	31,319
○ Federal Election Activity	107,908
○ Transfers to Non-Federal Account	224,349
○ Other Disbursements	117,600
Total Disbursements	\$ 2,698,226
Cash on hand @ December 31, 2008	\$ 60,779

Part III

Summary

Finding and Recommendation

Misstatement of Financial Activity

A comparison of DPA's reported activity to bank records revealed a misstatement of receipts and disbursements in 2007. DPA understated receipts and disbursements by \$148,974 and \$149,617, respectively. The Audit staff recommends that DPA amend its disclosure reports to correct these misstatements for 2007. (For more detail, see p. 4)

Part IV

Finding and Recommendation

Misstatement of Financial Activity

Summary

A comparison of DPA's reported activity to bank records revealed a misstatement of receipts and disbursements in 2007. DPA understated receipts and disbursements by \$148,974 and \$149,617, respectively. The Audit staff recommends that DPA amend its disclosure reports to correct these misstatements for 2007.

Legal Standard

Contents of Reports. Each report must disclose:

- The amount of cash on hand at the beginning and end of the reporting period;
- The total amount of receipts for the reporting period and for the calendar year; and
- The total amount of disbursements for the reporting period and for the calendar year;
- 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 DPA's reported activity to its bank records for 2007 and 2008. The following chart outlines the discrepancies for the beginning cash balance, receipts, disbursements, and the ending cash balance. Succeeding paragraphs address the reasons for the misstatements.

2007 Committee Activity			
	Reported	Bank Records	Discrepancy
Beginning Cash Balance @ January 1, 2007	\$67,443	\$71,616	\$4,173 Understated
Receipts	\$1,410,249	\$1,559,223	\$148,974 Understated
Disbursements	\$1,400,534	\$1,550,151	\$149,617 Understated
Ending Cash Balance @ December 31, 2007	\$77,158	\$80,688	\$3,530 Understated

The beginning cash balance was understated by \$4,173 and is unexplained, but likely resulted from prior period discrepancies.

The understatement of receipts resulted from the following:

• Unreported fundraising proceeds	\$ 87,496
• Unreported transfer from non-federal account	66,000
• Unexplained difference	(4,522)
Net understatement of receipts	\$ 148,974

The understatement of disbursements resulted from the following:

• Unreported transfer of fundraising proceeds to non-federal account	\$ 87,496
• Checks reported as "void" but clearing bank	2,039
• Disbursements reported but not supported by check or debit	(381)
• Disbursements made but not reported	68,449
• Unexplained difference	(7,986)
Net understatement of disbursements	\$ 149,617

The \$87,496 included in both the understatement of receipts and disbursements represents net non-federal proceeds from fundraiser events in which DPA received both federal and non-federal contributions. The contributions were received in the form of the ticket price paid to attend the event and were collected by a commercial ticket processing company. The company subsequently submitted a check to DPA for the proceeds, less its service fee. DPA deposited the check into its federal account, then calculated the non-federal share and transferred that amount to the non-federal account but failed to report the receipt of the non-federal portion of the proceeds and the transfer to the non-federal account (\$87,496). The federal portion along with the service fees were reported by DPA.

The \$3,530 understatement of the closing cash on hand was the result of the misstatements described above.

The Audit staff discussed the misstatements for 2007 with DPA representatives at the exit conference and provided relevant workpapers detailing the reporting errors. Regarding the reporting of the non-federal proceeds and subsequent transfer, DPA representatives explained that both the receipt and the transfer were excluded from the report because they only deposited the proceeds in the federal account after receiving a single, co-mingled check which included both federal and non-federal funds. They further added that they would amend the appropriate schedules as necessary to correct the misstatements.

Interim Audit Report Recommendation

The Audit staff recommends that, within 30 days of receipt of this report, DPA amend its 2007 reports to correct the misstatements noted above by reporting the non-federal portion of the proceeds on line 17, Other Federal Receipts, and the transfer to the non-federal account on line 29, Other Disbursements.