



Interim Audit Report of the Audit Division on the Arizona Republican Party (January 1, 2009 - December 31, 2010)

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 Arizona Republican Party is a state party committee with headquarters in Phoenix, Arizona. For more information, see the chart on the Committee Organization, p. 2.

Financial Activity (p. 3)

• Receipts	
○ Contributions from Individuals	\$ 1,297,217
○ Political Committee Contributions	32,001
○ Transfers from Affiliates	353,151
○ Transfers from Non-federal and Levin Accounts	196,710
○ Offsets and Other Receipts	19,581
Total Receipts	\$ 1,898,660
• Disbursements	
○ Operating Expenditures	\$ 1,028,844
○ Federal Election Activity	299,340
○ Transfers to Non-federal Accounts	34,109
○ Coordinated Expenditures	529,361
○ Other Expenditures	12,500
Total Disbursements	\$ 1,904,154
• Levin Receipts	\$ 20,301
• Levin Disbursements	\$ 28,329

Findings and Recommendations (p. 4)

- Misstatement of Financial Activity (Finding 1)
- Excessive Coordinated Party Expenditures (Finding 2)
- Reporting of Debts and Obligations (Finding 3)

¹ 2 U.S.C. §438(b).

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Part I

Background

Authority for Audit

This report is based on an audit of the Arizona Republican Party (ARP), 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 whether 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 individual contributors' occupation and name of employer;
2. the disclosure of disbursements, debts and obligations;
3. the disclosure of expenses allocated between federal, non-federal, and Levin accounts;
4. the consistency between reported figures and bank records;
5. the completeness of records; and
6. other committee operations necessary to the review.

Part II

Overview of Committee

Committee Organization

Important Dates	
• Date of Registration	October 6, 1975 ²
• Audit Coverage	January 1, 2009 – December 31, 2010
Headquarters	
	Phoenix, Arizona
Bank Information	
• Bank Depositories	One
• Bank Accounts	Four Federal, One Levin and Four Non-federal Accounts
Treasurer	
• Treasurer When Audit Was Conducted	Timothy Lee [through April 25, 2012] Andrew A. Stevens [as of April 26, 2012]
• Treasurer During Period Covered by Audit	Timothy Lee
Management Information	
• Attended a Commission Campaign Finance Seminar	Yes
• Who Handled Accounting and Recordkeeping Tasks	Paid Staff

² The ARP registered with the Secretary of the Senate as the Republican State Committee of Arizona. In 1985, the ARP filed an amended Statement of Organization, changing its name to the Arizona Republican Party.

Overview of Financial Activity (Audited Amounts)

Cash-on-hand @ January 1, 2009	\$ 4,399
Receipts	
o Contributions from Individuals	\$ 1,297,217
o Political Committee Contributions	32,001
o Transfers from Affiliates	353,151
o Transfers from Non-federal and Levin Accounts	196,710
o Offsets and Other Receipts	19,581
Total Receipts	\$ 1,898,660
Disbursements	
o Operating Expenditures	\$ 1,028,844
o Federal Election Activity	299,340
o Transfers to Non-federal Accounts	34,109
o Coordinated Expenditures	529,361
o Other Expenditures	12,500
Total Disbursements	\$ 1,904,154
Cash-on-hand @ December 31, 2010	(\$ 1,095)³
Levin Cash-on-hand @ January 1, 2009	\$ 8,535
Total Levin Receipts	\$ 20,301
Total Levin Disbursements	\$ 28,329
Levin Cash-on-hand @ December 31, 2010	\$ 507

³ Overdraft was cleared on January 6, 2011.

Part III

Summaries

Findings and Recommendations

Finding 1. Misstatement of Financial Activity

During audit fieldwork, a comparison of the ARP's reported financial activity with its bank records revealed a misstatement of the beginning and ending cash balances, receipts and disbursements in calendar years 2009 and 2010. The misstatements were due mainly to unreported transfers from the non-federal accounts, unreported receipts and operating expenditures, and unreported non-federal payroll paid from a federal account. For 2009, the ARP overstated the beginning cash balance by \$25,971, understated receipts by \$56,959 and disbursements by \$92,890, and overstated the ending cash balance by \$61,902. For 2010, the ARP understated receipts by \$99,511 and disbursements by \$55,892 and overstated the ending cash balance by \$18,283. The Audit staff recommends that the ARP amend its disclosure reports to correct the misstatements for both 2009 and 2010. (For more detail, see p. 5.)

Finding 2. Excessive Coordinated Party Expenditures

For the audit period, the ARP reported coordinated expenditures for three House candidates that exceeded the 2010 coordinated party expenditure limit by a total of \$383,862. The Audit staff recommends that the ARP provide evidence that the expenditures were not coordinated or seek reimbursement from the candidate who benefited. (For more detail, see p. 8.)

Finding 3. Reporting of Debts and Obligations

Audit fieldwork indicated that the ARP failed to report debts and obligations for seven vendors totaling \$81,948 on Schedule D (Debts and Obligations). The Audit staff recommends that the ARP amend its disclosure reports to include these debts and obligations. (For more detail, see p. 10.)

Part IV

Findings and Recommendations

Finding 1. Misstatement of Financial Activity

Summary

During audit fieldwork, a comparison of the ARP's reported financial activity with its bank records revealed a misstatement of the beginning and ending cash balances, receipts and disbursements in calendar years 2009 and 2010. The misstatements were due mainly to unreported transfers from the non-federal accounts, unreported receipts and operating expenditures, and unreported non-federal payroll paid from a federal account. For 2009, the ARP overstated the beginning cash balance by \$25,971, understated receipts by \$56,959 and disbursements by \$92,890, and overstated the ending cash balance by \$61,902. For 2010, the ARP understated receipts by \$99,511 and disbursements by \$55,892 and overstated the ending cash balance by \$18,283. The Audit staff recommends that the ARP amend its disclosure reports to correct the misstatements for both 2009 and 2010.

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;
- 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). 2 U.S.C. §434(b)(1), (2), (3), (4) and (5).

Facts and Analysis

A. Facts

During audit fieldwork, the Audit staff reconciled the ARP's reported financial activity with its bank records and identified a misstatement of the beginning and ending cash balances, receipts and disbursements for calendar years 2009 and 2010. The following charts detail the discrepancies between the totals on the ARP's disclosure reports and bank records. Succeeding paragraphs explain why the discrepancies occurred.

2009 Activity			
	Reported	Bank Records	Discrepancy
Beginning Cash Balance @ January 1, 2009	\$30,370	\$4,399	\$25,971 Overstated
Receipts	\$483,816	\$540,775	\$56,959 Understated
Disbursements	\$449,381	\$542,271	\$92,890 Understated
Ending Cash Balance @ December 31, 2009	\$64,805	\$2,903	\$61,902 Overstated

The \$25,971 overstatement of the beginning cash balance was due mainly to prior-period reporting discrepancies.

The understatement of receipts was the result of the following:

• Transfers from the non-federal accounts not reported	\$ 51,042
• Contributions not reported	13,115
• Reported receipts not supported by deposit documentation or credit	(7,158)
• Unexplained difference	<u>(40)</u>
Net Understatement of Receipts	<u>\$ 56,959</u>

The understatement of disbursements was the result of the following:

• Non-federal payroll paid from federal account not reported	\$ 78,686
• Transfers to the non-federal account not reported	10,300
• Operating expenditures not reported	6,390
• Reported disbursements not supported by a cancelled check or debit	(2,489)
• Unexplained difference	<u>3</u>
Net Understatement of Disbursements	<u>\$ 92,890</u>

The \$61,902 overstatement of the ending cash balance resulted from the reporting discrepancies noted above.

2010 Activity			
	Reported	Bank Records	Discrepancy
Beginning Cash Balance @ January 1, 2010	\$64,805	\$2,903	\$61,902 Overstated
Receipts	\$1,258,374	\$1,357,885	\$99,511 Understated
Disbursements	\$1,305,991	\$1,361,883	\$55,892 Understated
Ending Cash Balance @ December 31, 2010	\$17,188	(\$1,095)	\$18,283 Overstated

The understatement of receipts was the result of the following:

• Transfers from the non-federal accounts not reported	\$ 55,272
• Contributions not reported	45,006
• In-kind contributions not reported	11,151
• Reported receipts not supported by deposit documentation or credit	(11,697)
• Unexplained difference	<u>(221)</u>
Net Understatement of Receipts	<u>\$ 99,511</u>

The understatement of disbursements was the result of the following:

• Non-federal payroll paid from the federal account not reported	\$ 14,202
• Operating expenditures not reported	29,497
• Transfers to non-federal accounts not reported	16,366
• In-kind contributions not reported	11,151
• Reported disbursements not supported by a cancelled check or debit	(11,788)
• Disbursements paid from non-federal accounts reported in error	(3,751)
• Unexplained difference	<u>215</u>
Net Understatement of Disbursements	<u>\$ 55,892</u>

The \$18,283 overstatement of the ending cash balance resulted from the reporting discrepancies noted above.

The ARP contracted with Paychex, a third-party vendor, to process employee salaries, taxes and health benefits.⁴ Paychex withdrew funds from the ARP's federal administrative account to pay federal payroll, allocated payroll, non-federal payroll and related benefits. The non-federal account reimbursed the federal account for the non-federal payroll and benefits.⁵ The ARP reported only the federal payroll, allocated payroll and related benefits. The ARP did not report non-federal payroll and benefits and the reimbursement from the non-federal account. Since the ARP paid the non-federal payroll, taxes and benefits from the federal administrative account, those expenditures should have been reported on Schedule B – Other Disbursements and the reimbursement from the non-federal account on Schedule A – Other Receipts.

B. Interim Audit Report & Audit Division Recommendation

At the exit conference, Audit staff provided the ARP representatives with workpapers detailing the misstatements of financial activity and discussed the reporting requirements for financial activity passing through the federal bank accounts. An ARP representative asked whether the requirement also applied to credit card contributions intended for the non-federal account. The Audit staff stated that because all credit card contributions are processed through the federal account, contributions intended for the non-federal account need to be reported first on Schedule A – Other Receipts, and the transfer of the funds to the non-federal account needs to be reported on Schedule B – Other Disbursements.

The Audit staff recommends that, within 30 calendar days of receipt of this report, the ARP should:

- amend its reports to correct the misstatements for 2009 and 2010 as noted above;
- amend its most recent report to correct the cash-on-hand balance with an explanation that the change resulted from a prior-period audit adjustment; and
- reconcile the cash balance of its most recent report to identify any subsequent discrepancies that may affect the \$18,283 adjustment recommended by the Audit staff.

⁴ Paychex began providing payroll services on October 1, 2009; prior to that date, payroll services were provided by Business Management Solutions LLC.

⁵ A review of payroll expenditures showed that the non-federal account did not overfund the non-federal payroll.

Finding 2. Excessive Coordinated Party Expenditures

Summary

For the audit period, the ARP reported coordinated expenditures for three House candidates that exceeded the 2010 coordinated party expenditure limit by a total of \$383,862. The Audit staff recommends that the ARP provide evidence that the expenditures were not coordinated or seek reimbursement from the candidate who benefited.

Legal Standard

A. Coordinated Party Expenditures. National party committees and state party committees are permitted to purchase goods and services on behalf of candidates in the general election, over and above the contributions that are subject to contribution limits. Such purchases are termed "coordinated party expenditures." They are subject to the following rules:

- The amount spent on "coordinated party expenditures" is limited by statutory formulas that are based on the Cost of Living Adjustment (COLA) and the voting-age population.
- Party committees are permitted to coordinate the spending with the candidate committees.
- The parties may make these expenditures only in connection with the general election.
- The party committees—not the candidates—are responsible for reporting these expenditures.
- If the party committee exceeds the limits on coordinated party expenditures, the excess amount is considered an in-kind contribution, subject to the contribution limits. 2 U.S.C. §441a(d) and 11 CFR §§109.30 and 109.32.

B. Assignment of Coordinated Party Expenditure Limit. A political party may assign its authority to make coordinated party expenditures to another political party committee. Such an assignment must be made in writing, state the amount of the authority assigned, and be received by the assignee before any coordinated party expenditure is made pursuant to the assignment. The political party committee that is assigned authority to make coordinated party expenditures must maintain the written assignment for at least three years. 11 CFR §109.33(a) and (c).

C. Limits on Contributions Made by State and Local Party Committees.

State and local party committees must comply with the contribution limits below:

- \$5,000 per election to a federal campaign if the contributing committee has qualified as a multicandidate committee (see below);
- \$2,400 per election to a federal campaign if the contributing committee has not qualified as a multicandidate committee;
- \$5,000 per year to a separate segregated fund (corporate or labor political action committee) or a nonconnected committee; and
- unlimited transfers to other party committees. 2 U.S.C. §441a(a).

Facts and Analysis

A. Facts

The coordinated expenditure limit for the 2010 election cycle for a House candidate in the state of Arizona was \$43,500 each for the state and national party committees. The ARP reported receiving authorization from the Republican National Committee (RNC) and the National Republican Congressional Committee (NRCC) to make coordinated expenditures on behalf of House candidates Paul Gosar (Arizona District 1), David Schweikert (Arizona District 5) and Jesse Kelly (Arizona District 8). During audit fieldwork, the Audit staff requested, but did not receive, documentation as required by 11 CFR §109.33(a) from the ARP demonstrating the parties' authorization. A review of the NRCC's disclosure reports indicated that the NRCC made coordinated expenditures of \$85,000 on behalf of Paul Gosar for Congress and \$85,000 for Kelly for Congress. Also, the NRCC reported receiving authorization from the RNC and the ARP to make those expenditures. Therefore, without documentation to support an increased coordinated spending limit, the ARP's coordinated spending limit for each congressional candidate is \$43,500.⁶

The ARP reported making coordinated expenditures for direct mail pieces totaling \$57,373 on behalf of Paul Gosar for Congress, \$209,032 for David Schweikert for Congress and \$262,957 for Kelly for Congress. These expenditures are in excess of the authorized coordinated spending limit for each candidate and resulted in an apparent excessive in-kind contribution to each candidate.

The following chart details the total amount of coordinated expenditures reported by the ARP and the resulting apparent excessive in-kind contributions.

ARP Coordinated Expenditures	Paul Gosar for Congress	David Schweikert for Congress	Kelly for Congress	Total
Reported Expenditures	\$57,373	\$209,032	\$262,957	
Less: Spending Limit	(\$43,500)	(\$43,500)	(\$43,500)	
Over Limit (In-kind Contribution)	\$13,873	\$165,532	\$219,457	
Less: Allowable Contribution ⁷	(\$5,000)	(\$5,000)	(\$5,000)	
Excessive In-kind Contributions	\$8,873	\$160,532	\$214,457	\$383,862
Coordinated Expenditures reported by the NRCC ⁸	\$85,000	\$0	\$85,000	

B. Interim Audit Report & Audit Division Recommendation

At the exit conference, the Audit staff provided the ARP representatives with a schedule of the apparent excessive in-kind contributions. The ARP representatives stated that they had not received a response from the RNC or NRCC about authorization of the coordinated expenditure

⁶ The ARP did not provide any documentation to demonstrate that it had transferred its authority the NRCC to make coordinated expenditures on behalf of the candidates.

⁷ The ARP did not report any contributions to federal candidates during the 2010 election cycle.

⁸ Reported expenditures were made prior to the expenditures reported by the ARP.

limit and asked what this finding would mean for the committee. The Audit staff stated that if the ARP cannot provide documentation to refute coordination, the Commission could find that the ARP made an excessive in-kind contribution to the candidates and ask it to request a refund from the candidates.

The Audit staff recommends that, within 30 calendar days of receipt of this report, the ARP demonstrate that it did not exceed its coordinated spending limit on behalf of Paul Gosar for Congress, David Schweikert for Congress and Kelly for Congress. Absent evidence of the above, the Audit staff recommends that the ARP seek reimbursement from Paul Gosar for Congress in the amount of \$8,873, David Schweikert for Congress in the amount of \$160,532 and Kelly for Congress in the amount of \$214,457.

Finding 3. Reporting of Debts and Obligations

Summary

Audit fieldwork indicated that the ARP failed to report debts and obligations for seven vendors totaling \$81,948 on Schedule D (Debts and Obligations). The Audit staff recommends that the ARP amend its disclosure reports to include these debts and obligations.

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.

2 U.S.C. §434(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. 11 CFR §104.11(b).

Facts and Analysis

A. Facts

During audit fieldwork, the Audit staff reviewed the ARP's disbursement records and disclosure reports for proper reporting of debts and obligations for 12 selected vendors. The review identified debts totaling \$188,956 that the ARP reported properly on Schedule D. However, the

ARP did not report as required additional debts totaling \$81,948 that it owed to seven of these vendors.⁹

B. Interim Audit Report & Audit Division Recommendation

The Audit staff discussed the reporting of debts and obligations with the ARP's representatives at the exit conference and provided workpapers detailing the unreported debts. The ARP representatives had no comment.

The Audit staff recommends that, within 30 calendar days of receipt of this report, the ARP amend its reports to disclose these debts and obligations on Schedule D.

⁹ This is the sum of the total unreported debt for each of the seven vendors during the period covered by the audit (debts only counted when incurred).