



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

May 16, 2012

MEMORANDUM

To: The Commission

Through: Alec Palmer
Staff Director

From: Patricia Carmona *PC*
Chief Compliance Officer

Tom Hintermister *TH*
Assistant Staff Director
Audit Division

Marty Kuest *ME*
Audit Manager

By: Christopher Carrell *MC*
Lead Auditor

Subject: Audit Division Recommendation Memorandum on the National Council of Farmer Cooperative Co-op/PAC (NCFC) (A11-26)

Pursuant to Commission Directive No. 70 (FEC Directive on Processing Audit Reports), the Audit staff's recommendations are presented below and the findings are discussed in the attached Draft Final Audit Report. The Office of General Counsel has reviewed this memorandum and concurs with the recommendations.

Finding 1. Misstatement of Financial Activity

NCFC had no additional comments on this finding in response to the DFAR. The Audit staff recommends that the Commission find that NCFC misstated its financial activity for receipts, disbursements, and ending cash-on-hand for calendar year 2009 and beginning cash-on-hand for 2010.

Finding 2. Disclosure of Occupation/Name of Employer

NCFC had no additional comments on this finding in response to the DFAR. The Audit staff recommends that the Commission find that NCFC failed to properly disclose occupation/name of employer for contributions from individuals.

Finding 3. Disclosure of Contributions to Candidate Committees

NCFC had no additional comments on this finding in response to the DFAR. The Audit staff recommends that the Commission find that NCFC failed to properly disclose candidate information for its contributions to federal candidates.

The Committee did not request an audit hearing.

If this memorandum is approved, a Proposed Final Audit Report will be prepared within 30 days of the Commission's vote.

Should an objection be received, Directive No. 70 states that the Audit Division Recommendation Memorandum will be placed on the next regularly scheduled open session agenda.

Documents related to this audit report can be viewed in the Voting Ballot Matters folder. Should you have any questions, please contact Christopher Carrell or Marty Kuest at 694-1200.

Attachments:

- Draft Final Audit Report of the Audit Division on the National Council of Farmer Cooperative Co-op/PAC

cc: Office of General Counsel



Draft Final Audit Report of the Audit Division on the National Council of Farmer Cooperatives Co-op/PAC

(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 threshold 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 National Council of Farmer Cooperatives Co-op/PAC is a non-connected, qualified, multi-candidate Political Action Committee and is headquartered in Washington, D.C. For more information, see chart on Committee Organization.

Financial Activity (p. 2)

• Receipts	
○ Contributions from Individuals	\$ 64,195
○ Contributions from Other Political Committees	46,000
○ Cash Receipts	6,352
Total Receipts	\$ 116,547
• Disbursements	
○ Contributions to Political Committees	\$ 128,500
○ Other Disbursements	421
Total Disbursements	\$ 128,921

Findings and Recommendations (p. 3)

- Statement of Financial Activity (Finding 1)
- Disclosure of Occupation/Name of Employer (Finding 2)
- Disclosure of Contributions to Candidate Committees (Finding 3)

¹ 2 U.S.C. §438(b).

**Draft Final Audit Report of the
Audit Division on the
National Council of Farmer
Cooperatives Co-op/PAC**

(January 1, 2009 – December 31, 2010)

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Part I Background

Authority for Audit

This report is based on an audit of the National Council of Farmer Cooperatives Co-op/PAC (NCFC), 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;
3. the consistency between reported figures and bank records;
4. the completeness of records; and
5. other committee operations necessary to the review.

Part II Overview of Committee

Committee Organization

Important Dates	
• Date of Registration	September 24, 1977
• Audit Coverage	January 1, 2006 - December 31, 2010
Headquarters	
Washington, DC	
Bank Information	
• Bank Depositories	One
• Bank Accounts	One Checking
Treasurer	
• Treasurer When Audit Was Conducted	Kevin Swartz
• Treasurer During Period Covered by Audit	Randall Jones 9/20/06-3/25/09 Jill Thomas 3/26/09-8/23/11
Management Information	
• Attended FEC Campaign Finance Seminar	Yes
• Who Handled Accounting and Recordkeeping Tasks	Patricia

Overview of Financial Activity (Actual Amounts)

Cash-on-hand @ January 1, 2009	\$ 44,630
Receipts	
o Contributions from Individuals	64,195
o Contributions from Other Political Committees	46,000
o Other Receipts	6,352
Total Receipts	\$ 116,547
Disbursements	
o Contributions to Political Committees	128,500
o Other Disbursements	421
Total Disbursements	\$ 128,921
Cash-on-hand @ December 31, 2010	\$ 32,256

Part III Summaries

Findings and Recommendations

Finding 1. Misstatement of Financial Activity

During audit fieldwork, a comparison of NCFC's reported figures with its bank records indicated that in 2009, NCFC understated receipts and disbursements by \$10,770 and \$806, respectively, and overstated ending cash by \$5,133. In 2010, NCFC overstated beginning cash by \$13,000 and disbursements by \$6,560. In response to the Interim Audit Report, NCFC filed amended disclosure reports to correct the misstatements. (For more detail, see p. 4)

Finding 2. Disclosure of Occupation/Name of Employer

During audit fieldwork, a review of itemized contributions from individuals indicated that 57 percent of the contributions failed to include adequate disclosure for occupation and name of employer. The Audit staff found that the required information was available for 89 percent of the itemized contributions in NCFC's records. In response to the Interim Audit Report, NCFC filed amended reports to include the missing information. (For more detail, see p. 6)

Finding 3. Disclosure of Contributions to Candidate Committees

During audit fieldwork, a review of disbursements identified 80 percent of contributions to federal candidates that failed to include required disclosure information, such as office sought, state and district, or disclosed incorrect candidate information. In response to the Interim Audit Report, NCFC filed amended reports to include the missing or corrected information. (For more detail, see p. 7)

Part IV

Findings and Recommendations

Finding 1. Misstatement of Financial Activity

Summary

During audit fieldwork, a comparison of NCFC's reported figures with its bank records indicated that in 2009, NCFC understated receipts and disbursements by \$10,770 and \$806, respectively, and overstated ending cash by \$5,133. In 2010, NCFC overstated beginning cash by \$13,000 and disbursements by \$6,500. In response to the Interim Audit Report, NCFC filed amended disclosure reports to correct the misstatements.

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. §4302(1), (2), (3), (4) and (5).

Facts and Analysis

A. Facts

During audit fieldwork, the Audit staff reconciled NCFC's reported financial activity with its bank records for calendar years 2009 and 2010. The following charts outline the discrepancies for the receipts, disbursements and ending cash balances for 2009 and 2010. Subsequent paragraphs address the reasons for the misstatements.

2009 Activity	Reported	Bank Records	Discrepancy
Beginning Cash Balance @ January 1, 2009	\$44,630	\$44,630	\$0
Receipts	\$43,485	\$54,255	\$10,770 Understated
Disbursements	\$60,887	\$61,693	\$806 Understated
Ending Cash Balance @ December 31, 2009	\$42,326 ²	\$37,193	\$5,133 Overstated

² The amount in this column cannot be calculated accurately due to numerous discrepancies throughout 2009 between amounts reported for ending cash and the beginning cash in the subsequent period.

In 2009, NCFC understated receipts by \$10,770 as a result of failing to report any of its July receipts.

The understatement of disbursements was due to the following:

• Disbursements supported by check/debit, not reported	\$ 5,601
• December 2009 disbursement, reported June 2010	1,500
• Disbursements reported, not supported by check/debit	(3,500)
• Disbursement incorrectly reported	<u>(2,795)</u>
Net Understatement of Disbursements	<u>\$ 806</u>

NCFC overstated the beginning cash balance for 2010 by \$13,000 for the above reasons and because NCFC reported an increase in the beginning cash balance of \$7,877 (\$50,193 - \$42,326) as of January 1, 2010. The difference in the 2009 ending cash and the 2010 beginning cash illustrates NCFC's failure to consistently report beginning cash balances that equaled ending cash balances from the previous period.³

2010 Activity			
	Reported	Bank Records	Discrepancy
Beginning Cash Balance @ January 1, 2010	\$50,193	\$42,326	\$13,000 Overstated
Receipts	\$61,222	\$62,222	\$1,000 Understated
Disbursements	\$73,728	\$67,228	\$6,500 Overstated
Ending Cash Balance @ December 31, 2010	\$32,257 ⁴	32,256	\$1 Overstated

The overstatement of disbursements was due to the following:

• Disbursements supported by check/debit, not reported	\$ 3,000
• December 2009 disbursement, reported June 2010	(1,500)
• Disbursements reported not supported by check/debit	<u>(8,000)</u>
Net Overstatement of Disbursements	<u>\$ (6,500)</u>

B. Interim Audit Report & Audit Division Recommendation

At the end of audit fieldwork, Audit staff discussed this matter with NCFC representatives at the exit conference. NCFC representatives acknowledged the discrepancies in the reports and indicated that NCFC would file corrective amendments.

³ NCFC failed to carry over the correct ending cash balance to the subsequent report for all but one of its reports filed between May 2009 and Year-End 2010. The Reports Analysis Division sent 19 Requests for Additional Information concerning this issue to NCFC during the period covered by the audit.

⁴ This column does not total due to numerous discrepancies throughout 2010 between amounts reported for ending cash and the subsequent period's beginning cash, these numbers do not foot.

The Interim Audit Report recommended that NCFC amend its reports to correct the misstatements noted above.

C. Committee's Response to Interim Audit Report

NCFC filed amended reports to materially correct the misstatement of receipts, disbursements and ending cash-on-hand for 2009 and beginning cash-on-hand and disbursements for 2010.

Finding 2. Disclosure of Occupation/Name of Employer

Summary

During audit fieldwork, a review of itemized contributions from individuals indicated that 57 percent of the contributions failed to include adequate disclosure for occupation and name of employer. The Audit staff found that the required information was available for 89 percent of the itemized contributions in NCFC's records. In response to the Interim Audit Report, NCFC filed amended reports to include the missing information.

Legal Standard

- A. Required Information for Contributions from Individuals.** For each itemized contribution from an individual, the committee must provide the following information:
- the contributor's full name and address (including zip code);
 - the contributor's occupation and the name of his or her employer;
 - the date of receipt (the date the committee received the contribution);
 - the amount of the contribution; and
 - the calendar year-to-date total of all contributions from the same individual. 2 U.S.C. § 434(a)(3)(A) and 11 CFR § 100.12 and 104.3(a)(4)(i).
- B. Best Efforts to Achieve Compliance.** When the treasurer of a political committee shows that the committee used best efforts (see below) to obtain, maintain, and submit the information required by the Act, the committee's reports and records will be considered in compliance with the Act. 2 U.S.C. § 432(i) and 11 CFR § 104.7(a).
- C. Definition of Best Efforts.** The treasurer and the committee will be considered to have used "best efforts" if the committee satisfied all of the following criteria.
- All written solicitations for contributions included:
 - a clear request for the contributor's full name, mailing address, occupation, and name of employer; and
 - the statement that such reporting is required by Federal law. (Note that the request and statement must appear in a clear and conspicuous manner on any response material included in a solicitation.)
 - Within 30 days of receipt of the contribution, the treasurer made at least one effort to obtain the missing information, in either a written request or a documented oral request.
 - The treasurer reported any contributor information that, although not initially provided by the contributor, was obtained in a follow-up communication or was

contained in the committee's records or in prior reports that the committee filed during the same two-year election cycle. 11 CFR § 104.7(u).

Facts and Analysis

A. Facts

During audit fieldwork, a review of NCFC's itemized contributions from individuals for disclosure of occupation and name of employer indicated that NCFC failed to disclose the required information for 57 percent of contributions itemized. In a review of NCFC's records, the Audit staff noted that NCFC had the required information for 89 percent of the itemized contributions reviewed. NCFC failed to include in its reports the information it had in its possession.

B. Interim Audit Report & Audit Division Recommendation

The Audit staff presented this matter to NCFC representatives at the exit conference. The treasurer stated that NCFC would, using the contributor information already obtained, amend the reports to disclose occupation and name of employer.

The Interim Audit Report recommended that NCFC amend reports to disclose the occupation and name of employer for contributions from individuals.

C. Committee's Response to Interim Audit Report

NCFC filed amended reports to materially correct inadequate and/or missing disclosure information for occupation and name of employer for itemized contributions from individuals.

Finding 3. Disclosure of Contributions to Candidate Committees

Summary

During audit fieldwork, a review of disbursements identified 80 percent of contributions to federal candidates that failed to include required disclosure information, such as office sought, state and district, or disclosed incorrect candidate information. In response to the Interim Audit Report, NCFC filed amended reports to include the missing or corrected information.

Legal Standard

Reporting Contributions to Candidate Committees. When operating expenditures to the same person exceed \$200 in a calendar year, the committee must report:

- the amount of the expenditures;
- the date when the expenditures were made;
- the name and address of the payee;
- the purpose of the expenditures (2 U.S.C. § 434(b)(5)(A) and 11 CFR §§ 104.3(b)(3)(i)); and

- the candidate's name and office sought (including the state and, if applicable, Congressional district) (11 CFR §104.3(b)(3)(v)).

Facts and Analysis

A. Facts

During audit fieldwork, the Audit staff reviewed the committee's contributions to candidate committees. The review indicated that NCFC failed to correctly disclose candidate information such as state, office sought and, if applicable, congressional district for 80 percent of the contributions.

B. Interim Audit Report & Audit Division Recommendation

The Audit staff presented this matter to NCFC representatives at the exit conference. The treasurer stated that NCFC would amend its reports to properly disclose candidate information for each contribution.

The Interim Audit Report recommended that NCFC file amended reports to properly disclose the candidate information, such as office sought, candidate state and, if applicable, congressional district for its contributions to candidate committees.

C. Committee's Response to Interim Audit Report

NCFC filed amended reports to materially correct the inadequate and/or incorrect disclosure information for contributions to federal candidates.

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FEDERAL ELECTION COMMISSION

WASHINGTON, D.C. 20463

MEMORANDUM

TO: OFFICE OF THE COMMISSION SECRETARY
FROM: STAFF DIRECTOR
DATE: 05/16/12
SUBJECT: Audit Division Recommendation Memorandum
National Council of Farmer Cooperative Co-op/PAC (NCFC)
(A11-26)

AGENDA

The attached document is submitted as AGENDA BACKUP PAPER for the Commission Meeting of

OPEN SESSION []

CLOSED SESSION []

NOTE: This document has been cleared by the Office of the Staff Director for the above named Commission Meeting.



CIRCULATIONS

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Commissioners Only []

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Four horizontal lines for additional distribution notes.

Date & Time Transmitted: 05-16-12

TO: THE COMMISSIONERS

FROM: OFFICE OF THE STAFF DIRECTOR

SUBJECT: AUDIT DIVISION RECOMMENDATION MEMORANDUM ON
NATIONAL COUNCIL OF FARMER COOPERATIVE COOP/PAC
(NCFC) (A11-26)

DEADLINE: _____

Sunshine Recommendation

A. Open Session B. Closed Session

_____ Discussion would involve compliance matters which would be confidential under 2 U.S.C. §437g. (11 CFR §2.4(a)(1) and (2))

_____ Matter relates solely to the Commission's internal personnel decisions, or internal rules and practices. (11 CFR §2.4(b)(1))

_____ Report contains privileged or confidential financial or commercial information. (11 CFR §2.4(b)(2))

_____ Discussion would involve the consideration of a proceeding of a formal nature by the Commission to a specific person or the formal censure of a person. (11 CFR §2.4(b)(3))

_____ Disclosure would constitute a clearly unwarranted invasion of privacy. (11 CFR §2.4(b)(4))

_____ Discussion involves investigatory records compiled for law enforcement purposes, and production would disclose investigative techniques. (11 CFR §2.4(b)(5))

_____ Premature disclosure would be likely to have considerable adverse effect on the implementation of a proposed Commission action. (11 CFR §2.4(b)(6))

_____ Matter specifically concerns the Commission's participation in a civil action or proceeding, or an arbitration. (11 CFR §2.4(b)(7))

for the Staff Director