



FEDERAL ELECTION COMMISSION
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January 10, 2013

MEMORANDUM

To: The Commission

Through: Alec Palmer *AP*
Staff Director

From: Patricia C. Orrock *PCO*
Chief Compliance Officer

Tom Hintermister *TH*
Assistant Staff Director
Audit Division

Kendrick Smith *KS*
Audit Manager

By: Tesfai Asmamaw *TA* for TA
Lead Auditor

Subject: Audit Division Recommendation Memorandum on Randy Hultgren for Congress (A11-01)

Pursuant to Commission Directive No. 70 (FEC Directive on Processing Audit Reports), the Audit staff presents its recommendation below and discusses the findings in the attached Draft Final Audit Report (DFAR). The Office of General Counsel has reviewed this memorandum and concurs with the recommendation.

Misstatement of Financial Activity

In response to the Interim Audit Report, Randy Hultgren for Congress filed amendments that materially complied with the recommendation. Randy Hultgren for Congress did not file an additional response to the DFAR.

The Audit staff recommends that the Commission find that Randy Hultgren for Congress misstated its financial activity for calendar years 2009 and 2010.

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.

In case of an objection, 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 Tesfai Asmamaw or Kendrick Smith at 694-1200.

Attachment:

- **Draft Final Audit Report of the Audit Division on Randy Hultgren for Congress**

cc: Office of General Counsel



Draft Final Audit Report of the Audit Division on Randy Hultgren for Congress

September 22, 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 the matter discussed in this report.

About the Campaign (p. 2)

Randy Hultgren for Congress is the principal campaign committee for Randy Hultgren, Republican candidate for the United States House of Representatives from Illinois, 14th District, and is headquartered in St. Charles, Illinois. For more information, see the chart on the Campaign Organization, p. 2.

Financial Activity (p. 2)

• Receipts	
○ Contributions from Individuals	\$ 1,237,511
○ Contributions from Party Committees	393,942
○ Loans from the Candidate	43,838
○ Other Receipts	19,146
Total Receipts	\$ 1,694,437
• Disbursements	
○ Operating Expenditures	\$ 1,590,720
○ Loan Repayments to the Candidate	43,838
○ Other Disbursements	4,625
Total Disbursements	\$ 1,639,183

Finding and Recommendation (p. 3)

- Misstatement of Financial Activity

¹ 2 U.S.C. §438(b).

Draft Final Audit Report of the Audit Division on Randy Hultgren for Congress

September 22, 2009 - December 31, 2010



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Part I

Background

Authority for Audit

This report is based on an audit of Randy Hultgren for Congress (RHC), 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 candidate loans to the committee;
3. the disclosure and recordkeeping of disbursements to the candidate;
4. the consistency between reported figures and bank records; and
5. other committee operations necessary to the review.

Part II

Overview of Campaign

Campaign Organization

Important Dates	
• Date of Registration	September 21, 2009
• Audit Coverage	September 22, 2009 - December 31, 2010
Headquarters	
St. Charles, Illinois	
Bank Information	
• Bank Depositories	One
• Bank Account	One checking account
Treasurer	
• Treasurer When Audit Was Conducted	Clifford A. Brown
• Treasurer During Period Covered by Audit	Clifford A. Brown
Management Information	
• Attended Commission Campaign Finance Seminar	No
• Who Handled Accounting and Recordkeeping Tasks	Paid Staff

Overview of Financial Activity (Audited Amounts)

Cash-on-Hand @ September 22, 2009	\$0
Receipts	
○ Contributions from Individuals	1,237,511
○ Contributions from Party Committees	393,942
○ Loans from the Candidate	43,838
○ Other Receipts	19,146
Total Receipts	\$ 1,694,437
Disbursements	
○ Operating Expenditures	1,590,720
○ Loan Repayments to the Candidate	43,838
○ Other Disbursements	4,625
Total Disbursements	\$ 1,639,183
Cash-on-Hand @ December 31, 2010	\$ 55,254

Part III Summary

Finding and Recommendation

Misstatement of Financial Activity

During audit fieldwork, a comparison of RHC's reported financial activity with its bank records revealed a misstatement of receipts and disbursements for 2009 and 2010, as well as, ending cash-on-hand for 2010. For 2009, RHC understated receipts by \$9,440 and disbursements by \$7,911, respectively. In 2010, RHC understated receipts by \$83,278, disbursements by \$58,694, and ending cash-on-hand by \$26,113. In response to the Interim Audit Report recommendation, RHC amended its disclosure reports and materially corrected the misstatements. (For more detail, see p. 4.)

Part IV

Finding and Recommendation

Misstatement of Financial Activity

Summary

During audit fieldwork, a comparison of RHC's reported financial activity with its bank records revealed a misstatement of receipts and disbursements for 2009 and 2010, as well as, ending cash-on-hand for 2010. For 2009, RHC understated receipts by \$9,440 and disbursements by \$7,911, respectively. In 2010, RHC understated receipts by \$83,278, disbursements by \$58,694, and ending cash-on-hand by \$26,113. In response to the Interim Audit Report recommendation, RHC amended its disclosure reports and materially corrected the misstatements.

Legal Standard

A. 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 (to include the total amount of loans made by or guaranteed by the Candidate);
- 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).

B. Itemizing Loans. Each person who makes a loan to the political committee during the reporting period must be disclosed with the following information:

- Identification of any endorser or guarantor of the loan;
- The date the loan was made; and
- The amount of the loan. 11 CFR §104.3(a)(4)(iv).

C. Schedule C. On a Schedule C (Loans), both the original loan and payments to reduce principal must be reported each reporting period until the loan is repaid. The committee need only list the Candidate as the source of the loan. Also, the type of loan the Candidate receives (e.g. bank loan, brokerage account, credit card, home equity line of credit) must be disclosed in either the first box for endorser and guarantor with a notation for loan type or in the box for "Loan Source" after the Candidate's name. 11 CFR §§104.3(d) and 104.11.

Facts and Analysis

A. Facts

As part of audit fieldwork, the Audit staff reconciled RHC's reported activity with its bank records for 2009 and 2010. The following charts outline the discrepancies for cash-on-hand, receipts, and disbursements. Succeeding paragraphs address the reasons for the misstatements.

2009 Campaign Activity			
	Reported	Bank Records	Discrepancy
Beginning Cash-on-Hand @ September 22, 2009	\$0	\$0	\$0
Receipts	\$167,171	\$176,611	\$9,440 Understated
Disbursements	\$130,946	\$138,857	\$7,911 Understated
Ending Cash-on-Hand @ December 31, 2009	\$36,225	\$37,754	\$1,529 Understated

The understatement of receipts resulted from the following:

• Loans from the Candidate not reported	\$ 10,085
• Unexplained difference	(645)
Net Understatement of Receipts	<u>\$ 9,440</u>

The understatement of disbursements resulted from the following:

• Disbursements not reported	\$ 8,200
• Reported disbursements not supported by a check or debit	(453)
• Unexplained difference	164
Net Understatement of Disbursements	<u>\$ 7,911</u>

2010 Campaign Activity			
	Reported	Bank Records	Discrepancy
Beginning Cash-on-Hand @ January 1, 2010	\$36,225	\$37,754	\$1,529 Understated
Receipts	\$1,434,548	\$1,517,826	\$83,278 Understated
Disbursements	\$1,441,632	\$1,500,326	\$58,694 Understated
Ending Cash-on-Hand @ December 31, 2010	\$29,141	\$55,254	\$26,113 Understated

The understatement of receipts resulted from the following:

• Contributions from Individuals & PACs not reported	\$ 74,597
• Loans from the Candidate not reported	8,953
• Unexplained difference	<u>(272)</u>
Net Understatement of Receipts	<u>\$ 83,278</u>

The understatement of disbursements resulted from the following:

• Operating expenditures not reported	\$ 70,289
• Reported disbursements not supported by check or debit	(29,942)
• Candidate loan repayments not reported	16,500
• PAC contribution not reported	2,400
• Unexplained difference	<u>(553)</u>
Net Understatement of Disbursements	<u>\$ 58,694</u>

The \$26,113 understatement of the ending cash-on-hand was the result of the misstatements described above.

During the audit period, RHC provided a declaration, signed by the Candidate, attesting to loaning RHC \$43,838. The loans consisted of checks written from the Candidate's personal accounts to RHC and payments the Candidate made directly to vendors for campaign-related expenses. RHC did not report some of the loan activity (as noted above); nor did it correctly disclose some transactions as being in connection with the Candidate loans. The Audit staff notes that RHC fully repaid Candidate loans totaling \$43,838.

B. Interim Audit Report & Audit Division Recommendation

The Audit staff discussed the misstatements for 2009 and 2010 with RHC representatives during the exit conference and provided copies of relevant work papers detailing the errors. A representative said that RHC would take corrective action based on the audit recommendation.

The Interim Audit Report recommended that RHC amend its disclosure reports to correct the misstatements for 2009 and 2010, to include the proper itemization and disclosure of Candidate loans and repayments, and to amend its most recently filed disclosure report to correct the cash-on-hand balance with an explanation that the change resulted from a prior-period audit adjustment. Further, RHC should have reconciled the cash-on-hand balance of its most recent disclosure report to identify any subsequent discrepancies that may have had an impact on the \$26,113 adjustment recommended.

C. Committee Response to Interim Audit Report

In response to the Interim Audit Report recommendation, RHC filed amended disclosure reports that materially corrected the misstatements.