



# Interim Audit Report of the Audit Division on the Republican Party of Iowa

(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.<sup>1</sup> 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 Republican Party of Iowa is a state party committee, headquartered in Des Moines, Iowa. For more information, see chart on Committee Organization, p 2.

## Financial Activity (p. 2)

• Receipts	
○ Contributions from Individuals	\$ 1,130,254
○ Contributions from Other Political Committees	489,716
○ Transfers from Political Committees	633,129
○ Non-federal Transfers	325,042
○ Other Receipts	164,904
<b>Total Receipts</b>	<b>\$ 2,743,045</b>
• Disbursements	
○ Operating Expenditures	\$ 953,976
○ Federal Election Activity	526,610
○ Allocated Federal/Non-federal Expenditures	931,448
○ Coordinated Expenditures	276,578
○ Other Disbursements	54,736
<b>Total Disbursements</b>	<b>\$ 2,743,348</b>

## Findings and Recommendations (p. 3)

- Recordkeeping for Employees (Finding 1)
- Failure to Itemize Debts & Obligations (Finding 2)

<sup>1</sup> 2 U.S.C. §438(b).

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# Table of Contents

	<b>Page</b>
<b>Part I. Background</b>	
Authority for Audit	1
Scope of Audit	1
Commission Guidance	1
<b>Part II. Overview of Committee</b>	
Committee Organization	2
Overview of Financial Activity	2
<b>Part III. Summaries</b>	
Findings and Recommendations	3
<b>Part IV. Findings and Recommendations</b>	
Finding 1. Recordkeeping for Employees	4
Finding 2. Failure to Itemize Debts & Obligations	5

# Part I

## Background

### Authority for Audit

This report is based on an audit of the Republican Party of Iowa (RPIA), 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 receipt of excessive contributions and loans;
2. the disclosure of individual contributors' occupation and name of employer;
3. the consistency between reported figures and bank records;
4. the disclosure of disbursements, debts, and obligations;
5. the completeness of records; and
6. other committee operations necessary to the review.

### Commission Guidance

#### Request for Early Commission Consideration of a Legal Question

Pursuant to the Commission's "Policy Statement Establishing a Program for Requesting Consideration of Legal Questions by the Commission," several state party committees unaffiliated with RPIA requested early consideration of a legal question raised during an audit. Specifically, the Commission addressed whether monthly time logs under 11 CFR § 106.7(d)(1) were required for employees paid with 100 percent federal funds.

The Commission concluded, by a vote of 5-1, that 11 CFR § 106.7(d)(1) does require committees to keep a monthly log for employees paid exclusively with federal funds. Exercising its prosecutorial discretion, however, the Commission will not pursue recordkeeping violations for the failure to keep time logs or to provide affidavits to account for employee salaries paid with 100 percent federal funds and reported as such. Audit staff informed RPIA representatives of the payroll log requirement and of the Commission's decision not to pursue recordkeeping violations for failure to keep payroll logs for salaries paid and correctly reported as 100 percent federal. This audit report does not include any findings or recommendation with respect to RPIA employees paid with 100 percent federal funds and reported as such.

## Part II Overview of Committee

### Committee Organization

<b>Important Dates</b>	
• Date of Registration	October 14, 1975
• Audit Coverage	January 1, 2009 - December 31, 2010
<b>Headquarters</b>	Des Moines, Iowa
<b>Bank Information</b>	
• Bank Depositories	One
• Bank Accounts	Four federal, one Non-federal, and one building fund account
<b>Treasurer</b>	
• Treasurer When Audit Was Conducted	Craig Williams 7/9/10-6/15/12
• Treasurer During Period Covered by Audit	Gopal Krishna 6/24/08-1/26/09 Matt Randall 1/27/09-7/08/10
<b>Management Information</b>	
• Attended Commission Campaign Finance Seminar	No
• Who Handled Accounting and Recordkeeping Tasks	Paid Staff

### Overview of Financial Activity (Audited Amounts)

<b>Cash-on-hand @ January 1, 2009</b>	<b>\$ 218,208</b>
<b>Receipts</b>	
○ Contributions from Individuals	1,130,254
○ Contributions from Other Political Committees	489,716
○ Transfers from Political Committees	633,129
○ Non-federal Transfers	325,042
○ Other Receipts	164,904
<b>Total Receipts</b>	<b>\$ 2,743,045</b>
<b>Disbursements</b>	
○ Operating Expenditures	953,976
○ Federal Election Activity	526,610
○ Allocated Federal/Non-federal Expenditures	931,448
○ Coordinated Expenditures	276,578
○ Other Disbursements	54,736
<b>Total Disbursements</b>	<b>\$ 2,743,348</b>
<b>Cash-on-hand @ December 31, 2010</b>	<b>\$ 217,905</b>

## **Part III**

### **Summaries**

### **Findings and Recommendations**

#### **Finding 1. Recordkeeping for Employees**

During audit fieldwork, the Audit staff determined that RPIA did not maintain monthly payroll logs, as required, to track the percentage of time each employee spent on federal election activity. For 2009 and 2010, the amount of payroll for which logs were required, was \$476,442. This consisted of \$334,580, shared federal/non-federal payroll, and \$141,862, paid exclusively with non-federal funds. For RPIA employees paid with an allocation of federal and non-federal funds, and for those paid with 100 percent non-federal funds, the Audit staff recommends that RPIA implement a plan to maintain monthly payroll logs to track the percentage of time each employee spends on federal election activity.

(For more detail, see p. 4.)

#### **Finding 2. Failure to Itemize Debts & Obligations**

During audit fieldwork, the Audit staff noted that RPIA had failed to disclose debts and obligations totaling \$186,515. The Audit staff recommends that, absent documentation demonstrating that these expenditures did not require reporting on Schedule D (Debts and Obligations), RPIA amend its disclosure reports to disclose these debts.

(For more detail, see p. 5.)

## Part IV

# Findings and Recommendations

### Finding 1. Recordkeeping for Employees

#### Summary

During audit fieldwork, the Audit staff determined that RPIA did not maintain monthly payroll logs, as required, to track the percentage of time each employee spent on federal election activity. For 2009 and 2010, the amount of payroll for which logs were required, was \$476,442. This consisted of \$334,580, shared federal/non-federal payroll, and \$141,862, paid exclusively with non-federal funds. For RPIA employees paid with an allocation of federal and non-federal funds, and for those paid with 100 percent non-federal funds, the Audit staff recommends that RPIA implement a plan to maintain monthly payroll logs to track the percentage of time each employee spends on federal election activity.

#### Legal Standard

**Maintenance of Monthly Logs.** Party committees must keep a monthly log of the percentage of time each employee spends in connection with a federal election.

Allocations of salaries, wages, and fringe benefits are to be undertaken as follows:

- employees who spend 25% or less of their compensated time in a given month on federal election activities must be paid either from the federal account or be allocated as administrative costs;
- employees who spend more than 25% of their compensated time in a given month on federal election activities must be paid only from a federal account; and,
- employees who spend none of their compensated time in a given month on federal election activities may be paid entirely with funds that comply with state law. 11 CFR §106.7(d)(1).

#### Facts and Analysis

##### A. Facts

During fieldwork, the Audit staff reviewed disbursements made to employees totaling \$476,442<sup>2,3</sup> for which RPIA did not provide monthly payroll logs to document the percentage of time the employee spent in connection with federal election activity. These logs are required to document the proper allocation of federal and non-federal funds used to pay these workers. The total of \$476,442 consisted of \$334,580, for which payroll was allocated between federal and non-federal funds, and \$141,862 that was paid exclusively with non-federal funds.

<sup>2</sup> Payroll amounts are stated net of taxes and fringe benefits.

<sup>3</sup> Payments to RPIA employees paid with 100 percent federal funds and reported as such are not included in this finding. (See Background Section – Request for Early Consideration of Legal Question.)

### **B. Interim Audit Report & Audit Division Recommendation**

The Audit staff discussed the recordkeeping issue with RPIA representatives during audit fieldwork and at the exit conference. While the representatives did not address logs or other documentation to support the payroll recordkeeping requirements, they pointed out that RPIA Counsel had drafted affidavits to document the work performed by RPIA employees. Subsequently, RPIA provided affidavits from two employees who attested to the percentage of time they had spent in connection with federal election activity. These documents, however, do not resolve the recordkeeping finding because RPIA provided the affidavits only after notification of the audit. As such, RPIA did not appear to satisfy the requirement to maintain and provide payroll records during or prior to audit fieldwork.

The Audit staff recommends that, within 30 calendar days of receipt of this report, for payroll not reported and paid with 100% federal funds, RPIA:

- provide evidence that it maintained monthly time logs to document how much time an employee spent on federal election activity; or
- provide and implement a plan to maintain monthly payroll logs to track the percentage of time each employee spends on federal election activity.

## **Finding 2. Failure to Itemize Debts & Obligations**

### **Summary**

During audit fieldwork, the Audit staff noted that RPIA had failed to disclose debts and obligations totaling \$186,515. The Audit staff recommends that, absent documentation demonstrating that these expenditures did not require reporting on Schedule D (Debts and Obligations), RPIA amend its disclosure reports to disclose these debts.

### **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. 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 used available disbursement records to reconcile the accounts<sup>4</sup> for two RPIA vendors. These vendors provided RPIA with fundraising, telemarketing, phone services and direct mail. The debt balances owed were outstanding in almost every reporting period throughout the period covered by the audit. As described below, the Audit staff identified debts and obligations totaling \$186,515 that were not disclosed on Schedules D (Debts and Obligations).

The Audit staff reviewed invoiced information and identified unreported debt and obligations to one of these vendors totaling \$173,549. This unreported debt represents 93% of total reportable debt by RPIA.

In addition to the unreported debt discussed above, RPIA under-reported debt totaling \$12,966<sup>5</sup> to another vendor.

### **B. Interim Audit Report & Audit Division Recommendation**

The Audit staff presented this matter to RPIA representatives at the exit conference and provided schedules detailing the unreported debts for each reporting period for the audited cycle.

The Audit staff recommends that, within 30 calendar days of service of this report, RPIA provide documentation demonstrating that these expenditures did not require reporting on Schedules D. Absent such documentation, the Audit staff recommends that RPIA amend its reports to disclose the unreported debts totaling \$173,549 and to correct the under-reported debt totaling \$12,966.

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<sup>4</sup> The reconciliation consisted of calculating invoiced and paid amounts for individual reporting periods in the 2009-2010 campaign cycle. The Audit staff then determined whether any outstanding debts were correctly disclosed on Schedule D. Each debt amount was counted once, even if it required disclosure over multiple reporting periods.

<sup>5</sup> The total amount reportable to this vendor was \$16,039. RPIA reported only \$3,073 on its 2009 and 2010 disclosure reports. The under-reported amount was calculated as follows: \$16,039 - \$3,073 = \$12,966.