



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

May 2, 2013

MEMORANDUM

TO: Patricia C. Orrock
Chief Compliance Officer

Thomas Hintermister
Assistant Staff Director
Audit Division

FROM: Lisa J. Stevenson
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SUBJECT: Proposed Interim Audit Report on the Republican Party of Iowa (LRA 891)

I. INTRODUCTION

The Office of the General Counsel reviewed the proposed Interim Audit Report ("IAR") on the Republican Party of Iowa ("the Committee"). Our comments address the IAR's two findings: Finding 1 – Recordkeeping for Employees; and, Finding 2 – Failure to Itemize Debts and Obligations.¹ If you have any questions, please contact Danita C. Alberico, the attorney assigned to this audit.

¹ We recommend that the Commission consider this document in Executive Session because the Commission may eventually decide to pursue an investigation of matters contained in the proposed IAR. 11 C.F.R. §§ 2.4(a) and (b)(6).

II. RECORDKEEPING FOR EMPLOYEES (Finding 1)

The proposed IAR found that the Committee did not maintain monthly payroll logs for the percentage of time each employee spent on federal election activity in accordance with 11 C.F.R. § 106.7(d)(1). The auditors found that the amount of federal and non-federal funds paid for employees, including contract workers, for which logs were not maintained totaled \$534,866. Of this amount, the Committee paid a total of \$19,490 to its contract workers. In the absence of providing monthly payroll logs, the proposed IAR recommends that the Committee implement a plan to maintain monthly payroll logs to track the percentage of time each employee spends on federal election activity for payroll not reported and paid with 100% federal funds.

In two pending audits, the Commission considered whether the payroll recordkeeping requirement under 11 C.F.R. § 106.7(d)(1) should be applied to individuals who perform work for committees as "contract" workers. In those audits, the Commission did not approve, by the required four votes, the Audit Division's recommendations to include contract workers within the scope of the section 106.7(d)(1) monthly payroll log requirement, and the recordkeeping findings as to the contract workers were removed from the reports (two Commissioners voted for the original recommendations). The Commission's guidance had previously been sought on this issue pursuant to Commission Directive 69, and the recommendation of the Audit Division and the Office of General Counsel to include contract workers within the scope of the recordkeeping requirement failed to receive the affirmative vote of four or more Commissioners. Pursuant to Directive 69, the Office of Compliance proceeded, in the two pending audits previously referenced, to include the payroll for contract workers within the recordkeeping finding in the Interim Audit Report as submitted to the Commission. We understand that the Office of Compliance also is proceeding in this audit to include the payroll for contract workers within the recordkeeping finding.

Pursuant to Directive 69, the Audit Division may continue to include in the proposed IAR consideration of contract workers in determining whether and/or the extent to which the Committee complied with the monthly payroll log requirement under 11 C.F.R. § 106.7(d)(1). We recommend that the Audit Division make a note of its inclusion, and the Commission's prior decisions in the two pending audits, in its cover memo transmitting the proposed IAR to the Commission.²

III. FAILURE TO ITEMIZE DEBTS AND OBLIGATIONS (Finding 2)

The proposed IAR identified debts and obligations totaling \$186,515 that were not disclosed on Schedules D (Debts and Obligations). The auditors recommend that, absent documentation demonstrating that these expenditures were not required to be reported on Schedule D, the Committee amend its disclosure reports to properly disclose the debts and



obligations. The auditors advised this Office that the issues in this finding are identical to the issues presented in the proposed Draft Final Audit Report on the California Republican Party/V8 ("California") which is pending before the Commission.

In the California audit, the Commission did not approve the recommended finding by the required four votes. Some of the Commissioners argued that the issue was not that the Committee failed to report its debts and obligations but rather that it failed to accurately or timely disclose them and that since the Committee eventually disclosed its debts and obligations accurately, the issue did not warrant a finding. The Commission decided to move the matter to the "Additional Issues" section of California's Proposed Final Audit Report. In light of the outcome of this issue in the California audit, we recommend that the auditors bring to the Commission's attention, in the cover memorandum transmitting the proposed IAR, that Finding 2 presents the same issues as those in the California audit. To assist the Commission, the cover memorandum should explain why this type of disclosure issue is included as a finding.