



Interim Audit Report of the Audit Division on the Conservative Majority Fund (July 9, 2012 - December 31, 2012)

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 Conservative Majority Fund is a non-connected committee, headquartered in Arlington, Virginia. For more information, see the chart on Committee Organization, p. 2.

Financial Activity (p. 2)

- **Receipts**
 - Contributions from Individuals \$ 2,814,766
 - Total Receipts** \$ 2,814,766

- **Disbursements**
 - Operating Expenditures \$ 1,398,617
 - Independent Expenditures 1,347,233
 - Total Disbursements** \$ 2,745,850

Findings and Recommendations (p. 3)

- **Misstatement of Financial Activity (Finding 1)**
- **Disclosure of Occupation and Name of Employer (Finding 2)**
- **Reporting of Apparent Independent Expenditures (Finding 3)**
- **Reporting of Debts and Obligations (Finding 4)**
- **Recordkeeping for Communications (Finding 5)**

¹ 52 U.S.C. §30111(b).

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Division on the
Conservative Majority Fund**

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Table of Contents

	Page
Part I. Background	
Authority for Audit	1
Scope of Audit	1
Part II. Overview of Committee	
Committee Organization	2
Overview of Financial Activity	2
Part III. Summaries	
Findings and Recommendations	3
Part IV. Findings and Recommendations	
Finding 1. Misstatement of Financial Activity	5
Finding 2. Disclosure of Occupation and Name of Employer	6
Finding 3. Reporting of Apparent Independent Expenditures	8
Finding 4. Reporting of Debts and Obligations	13
Finding 5. Recordkeeping for Communications	14

Part I

Background

Authority for Audit

This report is based on an audit of the Conservative Majority Fund (CMF), 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 52 U.S.C. §30111(b), which permits the Commission to conduct audits and field investigations of any political committee that is required to file a report under 52 U.S.C. §30104. Prior to conducting any audit under this subsection, the Commission must perform an internal review of reports filed by selected committees to determine if the reports filed by a particular committee meet the threshold requirements for substantial compliance with the Act. 52 U.S.C. §30111(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 contributions received;
2. the disclosure of individual contributors' occupation and name of employer;
3. the disclosure of debts and obligations;
4. the consistency between reported figures and bank records;
5. the completeness of disbursement records;
6. the disclosure of independent expenditures; and
7. other committee operations necessary to the review.

Part II Overview of Committee

Committee Organization

Important Dates	
• Date of Registration	July 9, 2012
• Audit Coverage	July 9, 2012 - December 31, 2012
Headquarters	Arlington, Virginia
Bank Information	
• Bank Depositories	One
• Bank Accounts	One Checking Account
Treasurer	
• Treasurer When Audit Was Conducted	Scott Mackenzie
• Treasurer During Period Covered by Audit	Scott Mackenzie July 9, 2012 - December 31, 2012
Management Information	
• Attended Commission Campaign Finance Seminar	Yes
• Who Handled Accounting and Recordkeeping Tasks	Treasurer

Overview of Financial Activity (Audited Amounts)

Cash-on-hand @ July 9, 2012	\$ 0
Receipts	
○ Contributions from Individuals	2,814,766
Total Receipts	\$ 2,814,766
Disbursements	
○ Operating Expenditures	1,398,617
○ Independent Expenditures	1,347,233
Total Disbursements	\$ 2,745,850
Cash-on-hand @ December 31, 2012	\$ 68,916

Part III

Summaries

Findings and Recommendations

Finding 1. Misstatement of Financial Activity

The Audit staff's comparison of CMF's financial activity with its bank records revealed a material misstatement of disbursements in calendar year 2012. CMF misstated its disbursements by \$2,163,830. The Audit staff recommends that CMF amend its disclosure reports to correct the identified misstatement.

(For more detail, see p. 5.)

Finding 2. Disclosure of Occupation and Name of Employer

During audit fieldwork, a review of all contributions from individuals requiring itemization indicated that 527 contributions totaling \$86,745 lacked adequate disclosure of the contributor's occupation and name of employer. CMF did not demonstrate "best efforts" to obtain, maintain and submit this information. The Audit staff recommends that CMF file amended reports to correct the disclosure of the contributor's occupation and name of employer.

(For more detail, see p. 6.)

Finding 3. Reporting of Apparent Independent Expenditures

During audit fieldwork, the Audit staff reviewed disbursements to verify the independent expenditures that CMF reported on Schedule E (Itemized Independent Expenditures) were accurately and completely disclosed.

The Audit staff identified disbursements totaling \$469,136 which were not reported as apparent independent expenditures. Also independent expenditures totaling \$185,663 were disclosed with an incorrect vendor name.

With respect to the filing of 24/48-hour reports required for certain independent expenditures, CMF did not file 24-hour reports totaling \$90,260 in a timely manner and did not file 24/48-hour reports for apparent independent expenditures totaling \$469,136 noted above.

If CMF believes that the apparent independent expenditures, totaling \$469,136, did not require reporting as independent expenditures, the Audit staff recommends that CMF provide evidence to support its conclusion. Absent such evidence, the Audit staff recommends that CMF amend its reports to disclose these disbursements as independent expenditures on Schedule E and submit revised procedures for reporting independent expenditures. It is also recommended that CMF amend its reports to correct the vendor

name for the independent expenditures totaling \$185,663. Lastly, the Audit staff recommends that CMF provide documentation to support the timely filing of 24-hour reports totaling \$90,260 and documentation to support the public dissemination for communications totaling \$469,136 to determine whether a 24/48-hour report was required.

(For more detail, see p. 8.)

Finding 4. Reporting of Debts and Obligations

During audit fieldwork, the Audit staff identified debts totaling \$67,800 that were not disclosed on Schedule D (Debts and Obligations) as required. CMF contends that it was not liable for a portion of the expenses, as they were incurred by another committee. The Audit staff recommends that, absent documentation demonstrating that these expenditures did not require reporting on Schedule D, CMF amend its reports to disclose these debts.

(For more detail, see p. 13.)

Finding 5. Recordkeeping for Communications

During audit fieldwork, the Audit staff reviewed disbursements to verify the accuracy of the information and proper classification of transactions disclosed on reports. The Audit staff identified \$304,399 for which sufficient records were not provided. Without a copy of the invoices and the associated communications, the Audit staff is unable to determine how CMF should have reported these disbursements. The Audit staff recommends that CMF provide, in sufficient detail, the necessary information from which the disbursements totaling \$304,399 may be verified or explained. Such records should include copies of invoices and identification of the associated communication, and, if the communication has already been provided, information associating each communication with an invoice(s).

(For more detail, see p. 14.)

Part IV

Findings and Recommendations

Finding 1. Misstatement of Financial Activity

Summary

The Audit staff's comparison of CMF's financial activity with its bank records revealed a material misstatement of disbursements in calendar year 2012. CMF misstated its disbursements by \$2,163,830. The Audit staff recommends that CMF amend its disclosure reports to correct the identified misstatement.

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). 52 U.S.C. §30104(b)(1), (2), (3), (4), and (5).

Facts and Analysis

A. Facts

During audit fieldwork, the Audit staff reconciled CMF's reported financial activity with its bank records for calendar year 2012. The reconciliation determined that CMF misstated disbursements for 2012. The following chart outlines the discrepancies between CMF's disclosure reports and its bank records. The succeeding paragraphs explain why the discrepancies occurred.

2012 Committee Activity			
	Reported	Bank Records	Discrepancy
Beginning Cash Balance @ July 9, 2012	\$0	\$0	\$0
Receipts	\$2,814,767	\$2,816,253	(\$1,486) Understated
Disbursements	\$2,745,851	\$2,747,337	(\$1,486) Understated
Ending Cash Balance @ December 31, 2012	\$68,916	\$68,916	\$0

CMF understated its disbursements by \$1,486 in 2012. However, when evaluating the identified errors, regardless of whether the errors were positive or negative (absolute

value), the Audit staff discovered that CMF misstated its disbursements by \$2,163,830 as follows:

The misstatement of disbursements resulted from the following differences:

• Expenditures under-reported or not reported ²	\$1,081,176
• Expenditures over-reported or not supported by bank payments	1,081,172
• Bank charges not reported	<u>1,482</u>
Sum of Reporting Adjustments	\$2,163,830

B. Interim Audit Report & Audit Division Recommendation

At the exit conference, the Audit staff provided schedules of the misstated activity and discussed the reporting errors that caused the misstatement. The CMF Treasurer had no additional comments.

The Audit staff recommends that, within 30 calendar days of service of this report, CMF amend its reports to correct the misstatements for 2012 as noted above.

Finding 2. Disclosure of Occupation and Name of Employer

Summary

During audit fieldwork, a review of all contributions from individuals requiring itemization indicated that 527 contributions totaling \$86,745 lacked adequate disclosure of the contributor's occupation and name of employer. CMF did not demonstrate "best efforts" to obtain, maintain and submit this information. The Audit staff recommends that CMF file amended reports to correct the disclosure of the contributor's occupation and name of employer.

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. 52 U.S.C. §30104(b)(3)(A) and 11 CFR §§ 100.12 and 104.3(a)(4)(i).

B. Best Efforts Ensure Compliance. When the treasurer of a political committee shows that the committee used best efforts (see below) to obtain, maintain, and submit

² This amount includes two expenditures totaling \$79,631 for which documentation was insufficient to make a determination pertaining to how these disbursements should be reported. See Recordkeeping for Communication Finding, p.14.

the information required by the Act, the committee's reports and records will be considered in compliance with the Act. 52 U.S.C. §30102(l) 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: 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(b).

Facts and Analysis

A. Facts

A review of all contributions from individuals requiring itemization indicated that 527 contributions totaling \$86,745, or 30% of total contributions from individuals required to be itemized by CMF, lacked disclosure of the contributor's occupation and name of employer. For most of these entries, the contributor's occupation and name of employer information (455 of 527) were blank on the Schedule A (Itemized Receipts) filed with the Commission.

The Audit staff reviewed the receipt records provided by CMF to determine if it had utilized "best efforts" to obtain, maintain and submit the missing information.

- CMF did not provide documentation showing it made follow-up best efforts requests for 48 contributions totaling \$9,340 (\$86,745 - \$77,405).
- CMF had the required information for 479 contributions totaling \$77,405; however, this information was not disclosed on its disclosure reports.

In response to the audit, CMF submitted written procedures of "best efforts" requirements: (i) within thirty days of the receipt of the contribution, a letter would be sent, clearly asking for the missing information, without soliciting a contribution; (ii) contributors would be informed of the requirements of federal law for the reporting of such information; and (iii) a pre-addressed return envelope, a fax number and an email address would be provided to the contributor. The Treasurer stated that upon receipt of the information, CMF would amend its reports to provide the new information. Although occupation and name of employer information was obtained for the majority of its

contributors, CMF did not provide confirmation that these follow up letters were sent to contributors.

B. Interim Audit Report & Audit Division Recommendation

At the exit conference, the Audit staff provided schedules and discussed the omission of the contributor's occupation and name of employer. The CMF Treasurer commented that he had obtained a lot of the missing occupation and name of employer information. In response to the exit conference, CMF provided documentation detailing the contributor's occupation and name of employer information for \$45,369 of the errors, however amended disclosure reports were not filed.³ This amount is included in the \$77,405 noted above.

The Audit staff recommends that, within 30 calendar days of service of this report, CMF establish "best efforts" by amending its reports to disclose the missing information relating to the 479 contributions totaling \$77,405.

Finding 3. Reporting of Apparent Independent Expenditures

Summary

During audit fieldwork, the Audit staff reviewed disbursements to verify the independent expenditures that CMF reported on Schedule E (Itemized Independent Expenditures) were accurately and completely disclosed.

The Audit staff identified disbursements totaling \$469,136 which were not reported as apparent independent expenditures. Also independent expenditures totaling \$185,663 were disclosed with an incorrect vendor name.

With respect to the filing of 24/48-hour reports required for certain independent expenditures, CMF did not file 24-hour reports totaling \$90,260 in a timely manner and did not file 24/48-hour reports for apparent independent expenditures totaling \$469,136 noted above.

If CMF believes that the apparent independent expenditures, totaling \$469,136, did not require reporting as independent expenditures, the Audit staff recommends that CMF provide evidence to support its conclusion. Absent such evidence, the Audit staff recommends that CMF amend its reports to disclose these disbursements as independent expenditures on Schedule E and submit revised procedures for reporting independent expenditures. It is also recommended that CMF amend its reports to correct the vendor name for the independent expenditures totaling \$185,663. Lastly, the Audit staff recommends that CMF provide documentation to support the timely filing of 24-hour reports totaling \$90,260 and documentation to support the public dissemination for

³ CMF's database contained the occupation and name of employer information for an additional 203 contributions totaling \$32,036.

communications totaling \$469,136 to determine whether a 24/48-hour report was required.

Legal Standard

- A. Definition of Independent Expenditures.** The term "independent expenditure" means an expenditure by a person for a communication expressly advocating the election or defeat of a clearly identified candidate that is not made in coordination with any candidate or authorized committee or agent of a candidate. 11 CFR §100.16.
- B. Disclosure Requirements – General Guidelines.** An independent expenditure shall be reported on Schedule E if, when added to other independent expenditures made to the same payee during the same calendar year, it exceeds \$200. Independent expenditures made (i.e., publicly disseminated) prior to payment should be disclosed as memo entries on Schedule E and as a debt on Schedule D. Independent expenditures of \$200 or less need not be itemized, though the committee must report the total of those expenditures on line (b) of Schedule E. 11 CFR §§104.3(b)(3)(vii), 104.4(a) and 104.11.
- C. Last-Minute Independent Expenditure Reports (24-Hour Reports).** Any independent expenditures aggregating \$1,000 or more, with respect to any given election, and made after the 20th day but more than 24 hours before the day of an election, must be reported and the report must be received by the Commission within 24 hours after the expenditure is made. A 24-hour report is required each time additional independent expenditures aggregate \$1,000 or more. The date that a communication is publicly disseminated serves as the date that the committee must use to determine whether the total amount of independent expenditures has, in the aggregate, reached or exceeded the threshold reporting amount of \$1,000. 11 CFR §§104.4(f) and 104.5(g)(2).
- D. Independent Expenditure Reports (48-Hour Reports).** Any independent expenditures aggregating \$10,000 or more with respect to any given election, at any time during a calendar year, up to and including the 20th day before an election, must be disclosed within 48 hours each time the expenditures aggregate \$10,000 or more. The reports must be received by the Commission within 48 hours after the expenditure is made. The date that a communication is publicly disseminated serves as the date that the committee must use to determine whether the total amount of independent expenditures has, in the aggregate, reached or exceeded the threshold reporting amount of \$10,000. 11 CFR §§104.4(f) and 104.5(g)(1).
- E. Definition of Expressly Advocating.** The term "expressly advocating" means any communication that;
- Uses phrases such as "vote for the President," "re-elect your Congressman," "defeat" accompanied by a picture of one or more candidate(s), "reject the incumbent," or communications of campaign slogan(s) or individual word(s), which in context can have no other reasonable meaning than to urge the election

- or defeat of one or more clearly identified candidate(s), such as posters, bumper stickers, advertisements; or
- When taken as a whole and with limited reference to external events, such as the proximity to the election, could only be interpreted by a reasonable person as containing advocacy of the election or defeat of one or more clearly identified candidate(s) because:
 - the electoral portion of the communication is unmistakable, unambiguous, and suggestive of only one meaning; and
 - reasonable minds could not differ as to whether it encourages actions to elect or defeat one or more clearly identified candidate(s) or encourages some other kind of reaction. 11 CFR §100.22(a) and (b).

F. Formal Requirements Regarding Reports and Statements. Each political committee shall maintain records with respect to the matters required to be reported which shall provide in sufficient detail the necessary information and data from which the filed reports may be verified, explained, clarified, and check for accuracy and completeness. 11 CFR §104.14(b)(1).

Facts and Analysis

A. Reporting of Apparent Independent Expenditures

1. Facts

During audit fieldwork, the Audit staff reviewed disbursements to ensure the proper reporting of independent expenditures. The Audit staff identified the following:

- Apparent independent expenditures not reported totaling \$469,136.
- Vendor name incorrectly reported on Schedule E totaling \$185,663.

Background Information

The Audit staff was unable to match vendor invoices or payments to any disbursements disclosed on either Schedule B (Itemized Disbursements) or Schedule E. The Audit staff asked CMF to explain how it classified communications and how it reported the associated disbursements, as well as, if any documentation was available to verify the reported amounts. CMF stated that portions of some disbursements were reported as independent expenditures and the remaining portions as operating expenditures. However, CMF did not explain its methodology for determining how the disbursements were disclosed.

Absent documentation of how disbursements were disclosed, the Audit staff used the following approach to determine the amount⁴ that should have been reported as apparent independent expenditures:

⁴ The Audit staff included in its calculation of the total costs attributed to independent expenditures a variety of other types of cost described on the invoices, such as, postage of "fulfillment letters"; costs associated with credit card processing connected with "fulfillment letters" and with "acquisition and processing"; check debiting for "acquisition and processing"; "rental lists"; "prospecting"; "lockbox

- **Communications such as the telephone calls, follow-up letters, and television advertisements containing express advocacy of a clearly identified candidate were considered to have most likely disseminated before the date of the general election. 11 CFR §100.22(a)**
- **Based on communications that the Audit staff determined were disseminated before the November 6, 2012 general election, any associated costs were considered independent expenditures.**
- **Based on communications that the Audit staff determined were disseminated after the general election, any associated costs were considered operating expenditures.⁵**

a. Apparent Independent Expenditures (Copy of Invoice and Communication Made Available)

The Audit staff determined that CMF made apparent independent expenditures totaling \$1,816,390. However, CMF only reported independent expenditures totaling \$1,347,233. Therefore, the Audit staff calculated an under-reported amount of apparent independent expenditures totaling \$469,136, for which CMF provided the associated communications which included phone scripts and call dates, advertisements, and solicitation letters. This amount includes \$328,250 that CMF has not paid and for which CMF should have disclosed memo entries on Schedule E when the communications were disseminated. The corresponding debt owed⁶ also should have been disclosed on Schedule D (Debts and Obligations). The phone calls and television advertisements contained language expressly advocating the election or defeat of a clearly identified candidate, as defined under 11 CFR §100.22(a), while the follow up letters contained language advocating the election or defeat of a clearly identified candidate, as defined under 11 CFR §100.22(b).⁷

services," and costs associated with creating and sending "premiums" such as a flag and bumper sticker. These costs described on the invoices are not defined in terms of how they are related to the communications, but the descriptions might raise questions whether some of them should be considered costs for the communications. See 11 C.F.R. § 100.16.

⁵ The Audit staff used the range of dates listed on each invoice to estimate the date on which CMF's vendor completed the services. The Audit staff treated the last day of the date range as the date of completion for all invoices, except for those invoices in which the date range occurred partly before and partly after the general election date. In that case, the Audit staff chose to pro-rate the cost of the service according to the proportion of the date range occurring before and after the general election.

⁶ Only \$67,800 of the \$328,250 would be required to be disclosed as debt, since CMF disclosed debt owed to this vendor totaling \$260,450 on its 2012 year-end report. See Finding 4-Reporting of Debts and Obligations, p.13.

⁷ CMF has indicated that the two telephone scripts, two follow-up letters, and three television advertisements in the Audit staff's possession represent the entire universe of communications that were made during the audit period. However, invoices indicate there was an additional 2 television advertisements, see Finding 5- Recordkeeping for Communications, p. 14. Based on the content of the communications, one telephone script, one follow-up letter, and two television advertisements contained express advocacy.

b. Independent Expenditures Reported on Schedule E (Independent Expenditure Schedule) – Disclosure Errors

CMF disclosed 51 independent expenditures totaling \$185,663 with an incorrect vendor name. These expenditures were disclosed as paid to the media vendor. However, CMF did not make direct payments to this vendor. The media vendor's services were billed to CMF through invoices from another vendor, and CMF made direct payments to that vendor instead of the media vendor.

2. Interim Audit Report & Audit Division Recommendation

At the exit conference, the Audit staff presented schedules of apparent independent expenditure reporting errors. In response to the exit conference, the CMF Treasurer provided an email addressing \$301,972 of the expenses billed but not paid in section A. 1 (a) above. The email showed that June 2012 expenses totaling \$92,411 that were billed to CMF were actually incurred by another committee and should have been paid by that committee.⁸ Other than the email provided by CMF, the CMF Treasurer has not provided any other documentation to support that the other committee is liable for \$92,411.

The Audit staff recommends that, within 30 calendar days of the service of this report, CMF:

- Provide documentation and evidence that apparent independent expenditures totaling \$469,136 did not require reporting as independent expenditures. Absent such evidence, the Audit staff recommends that CMF amend its reports to disclose these disbursements as independent expenditures on Schedule E and submit revised procedures for reporting independent expenditures.
- Amend its reports to correct the vendor name for the 51 independent expenditures totaling \$185,663.

B. Failure to File 24/48-Hour Reports for Independent Expenditures

1. Facts

During audit fieldwork, the Audit staff reviewed disbursements to determine whether 24/48-hour reports were properly filed.⁹ The Audit staff determined that CMF filed untimely 24-hour reports for 13 independent expenditures totaling \$90,260. For these expenditures, 24-hour reports were filed 13 to 27 days after the dissemination date. As noted above, the Audit staff also identified apparent independent expenditures totaling \$469,136 which may also require filing of 24/48-hour reports.

⁸ The other committee that CMF contends is liable for the \$92,411 debt is not registered with the Commission.

⁹ See footnote 5.

2. Interim Audit Report & Audit Division Recommendation

At the exit conference, the Audit staff presented schedules of untimely and possible 24/48-hour reports that were not filed. The CMF Treasurer had no additional comments.

Absent documentation and evidence that apparent independent expenditures totaling \$469,136 did not require reporting as independent expenditures (per section A. 1. (a) above), the Audit staff recommends that, within 30 calendar days of service of this report, CMF provide documentation to support the date of public dissemination for the communications to determine whether a filing of a 24/48-hour report was required. The Audit staff also recommends that CMF provide documentation to demonstrate that the 24-hour reports totaling \$90,260 were filed timely.

Finding 4. Reporting of Debts and Obligations

Summary

During audit fieldwork, the Audit staff identified debts totaling \$67,800 that were not disclosed on Schedule D (Debts and Obligations) as required. CMF contends that it was not liable for a portion of the expenses, as they were incurred by another committee. The Audit staff recommends that, absent documentation demonstrating that these expenditures did not require reporting on Schedule D, CMF amend its 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. 52 U.S.C. §30104(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

The Audit staff reviewed invoices and disclosure reports for proper reporting of debts and obligations. During the election cycle, CMF over-reported debt owed to one vendor except for the 2012 Year-End Report, which did not include \$67,800¹⁰ owed to the vendor. This vendor provided media services for CMF.

¹⁰ The Audit staff identified payments owed to this vendor totaling \$328,250. See Finding 3 – Reporting of Apparent Independent Expenditures, p. 8. Only \$67,800 of the \$328,250 would be required to be disclosed as debt, since CMF disclosed debt owed to this vendor totaling \$260,450 on its 2012 year-end

B. Interim Audit Report & Audit Division Recommendation

At the exit conference, the Audit staff provided a schedule and discussed the debt reporting matter with the CMF Treasurer. In response to the exit conference, the CMF Treasurer provided an email showing that June 2012 expenses totaling \$92,411 that were billed to CMF were actually incurred by another committee and should have been paid by that committee. However, no further documentation or explanation has been provided to associate these expenses with another committee. The Audit staff has not been able to verify that the other committee is actually liable for the debt. As a result, the debt that CMF has not reported on its Schedule D remains as \$67,800.

The Audit staff recommends that, within 30 calendar days of service of this report, CMF:

- Provide documentation demonstrating that these expenditures did not require reporting on Schedule D.
- Provide documentation to support that the expenses totaling \$92,411 were billed erroneously to CMF.
- Absent such documentation, the Audit staff recommends that CMF amend its reports to disclose the unreported debts totaling \$67,800.

Finding 5. Recordkeeping for Communications

Summary

During audit fieldwork, the Audit staff reviewed disbursements to verify the accuracy of the information and proper classification of transactions disclosed on reports. The Audit staff identified \$304,399 for which sufficient records were not provided. Without a copy of the invoices and the associated communications, the Audit staff is unable to determine how CMF should have reported these disbursements. The Audit staff recommends that CMF provide, in sufficient detail, the necessary information from which the disbursements totaling \$304,399 may be verified or explained. Such records should include copies of invoices and identification of the associated communication, and, if the communication has already been provided, information associating each communication with an invoice(s).

Legal Standard

A. Formal Requirements Regarding Reports and Statements. Each political committee shall maintain records with respect to the matters required to be reported which shall provide in sufficient detail the necessary information and data from which the filed reports may be verified, explained, clarified, and check for accuracy and completeness. 11 CFR §104.14(b)(1).

report. CMF contends that invoices totaling \$92,411 of the \$328,250 billed were incurred by another committee.

B. Preserving Records and Copies of Reports. The treasurer of a political committee must preserve all records and copies of reports for 3 years after the report is filed. 52 U.S.C. §30102(d).

Facts and Analysis

A. Facts

During audit fieldwork, the Audit staff reviewed disbursements to verify the accuracy of the information reported on the disclosure reports.

The Audit staff's analysis resulted in the following:

- i. **Disbursements – No Invoices or Copies of Communications Provided (\$79,631)**
 CMF made two disbursements to a media vendor totaling \$79,631¹¹ for which documentation was insufficient to make a determination of how these disbursements should be reported. Available documentation included the disbursement database, canceled check copies, and bank statements. Without a copy of the invoices and the associated communications, the Audit staff is unable to determine how CMF should have reported these disbursements. The Audit staff requested the invoices, payment documentation, and copies of the communications.

- ii. **Disbursements – Invoices Provided – Incomplete Copies of Communication Provided (\$224,768)**
 Disbursements totaling \$224,768 for television advertisements were paid to one media vendor. Incomplete copies of the communication were made available to the Audit staff. CMF provided the invoices for these disbursements; however, without a complete copy of the communication the Audit staff is unable to verify CMF's reporting of these costs. The Audit staff requested copies of the associated communication.

B. Interim Audit Report & Audit Division Recommendation

At the exit conference, the Audit staff presented a schedule of the disbursements for which further records were necessary. The CMF Treasurer did not provide any comments.

The Audit staff recommends that, within 30 calendar days of service of this report, CMF provide the necessary records so the Audit staff can determine the proper reporting for the disbursements totaling \$304,399 (\$79,631 + \$224,768) on the recommended amendments. Such records should include:

- Copies of invoices and identification of the associated communication, and
- If the communication has already been provided, information associating each communication with an invoice(s).

¹¹ This amount is a part of the expenditures not reported which is addressed in Finding 1 – Misstatement of Financial Activity, p. 5.