



# Interim Audit Report of the Audit Division on the Kansas Democratic Party

(January 1, 2011 - 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.<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 Campaign (p. 2)

The Kansas Democratic Party is a state party committee headquartered in Topeka, Kansas. For more information, see the chart on committee organization, p. 2.

## Financial Activity (p. 2)

### • Receipts

○ Contributions from Individuals	\$ 475,045
○ Contributions from Political Committees	94,475
○ Transfers from Other Political Committees	258,668
○ Transfers from Non-Federal Accounts	356,727
○ Transfer of Levin Funds	14,400
○ Other Receipts	43,164
<b>Total Receipts</b>	<b>\$ 1,242,479</b>

### • Disbursements

○ Allocable Federal/Non Federal Expenditures	\$ 865,494
○ Federal Operating Expenditures	257,869
○ Federal Election Activity	97,884
○ Transfers to Non-Federal Accounts	37,706
○ Allocated Federal/Levin Activity	25,575
<b>Total Disbursements</b>	<b>\$ 1,284,528</b>

## Findings and Recommendations (p. 3)

- Misstatement of Financial Activity (Finding 1)
- Recordkeeping for Employees (Finding 2)
- Reporting of Debts and Obligations (Finding 3)
- Levin Funds Activity (Finding 4)

<sup>1</sup> 52 U.S.C. §30111(b).

# **Interim Audit Report of the Audit Division on the Kansas Democratic Party**

---

(January 1, 2011 – December 31, 2012)



# 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	3
<b>Part III. Summaries</b>	
Findings and Recommendations	4
<b>Part IV. Findings and Recommendations</b>	
Finding 1. Misstatement of Financial Activity	6
Finding 2. Recordkeeping for Employees	9
Finding 3. Reporting of Debts and Obligations	10
Finding 4. Levin Funds Activity	11

# **Part I**

## **Background**

### **Authority for Audit**

This report is based on an audit of the Kansas Democratic Party (KDP), 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 receipt of contributions from prohibited sources;
2. the disclosure of individual contributors' occupation and name of employer;
3. the disclosure of disbursements, debts and obligations;
4. the disclosure of expenses allocated between federal and non-federal accounts;
5. the consistency between reported figures and bank records;
6. the completeness of records;
7. the disclosure of independent expenditures; and
8. 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 KDP requested early consideration of a legal question raised during audits covering the 2010 election cycle. 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 decided it 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. The Audit staff informed KDP representatives of the payroll requirement and 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 recommendations with respect to KDP 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	December 31, 1976
• Audit Coverage	January 1, 2011 – December 31, 2012
<b>Headquarters</b>	
Topeka, Kansas	
<b>Bank Information</b>	
• Bank Depositories	One
• Bank Accounts	Five Federal, Two Non-federal, One Levin
<b>Treasurer</b>	
• Treasurer When Audit Was Conducted	Matthew Wattkins ( June 30, 2011 – June 17, 2015) Tobias Schlingensiepen (June 18, 2015 – Present)
• Treasurer During Period Covered by Audit	Dan Lykins (January 1, 2011 - June 29, 2011) Matthew Wattkins (June 30, 2011 – December 31, 2012)
<b>Management Information</b>	
• Attended Commission Campaign Finance Seminar	Yes
• Who Handled Accounting and Recordkeeping Tasks	Paid and Volunteer staff

## Overview of Financial Activity (Audited Amounts)

<b>Cash-on-hand @ January 1, 2011</b>	<b>\$ 81,067</b>
<b>Receipts</b>	
○ Contributions from Individuals	475,045
○ Contributions from Political Committees	94,475
○ Transfers from Other Political Committees	258,668
○ Transfers from Non-Federal Accounts	356,727
○ Transfer of Levin Funds	14,400
○ Other Receipts	43,164
<b>Total Receipts</b>	<b>\$ 1,242,479</b>
<b>Disbursements</b>	
○ Allocable Federal/Non Federal Expenditures	865,494
○ Federal Operating Expenditures	257,869
○ Federal Election Activity	97,884
○ Transfers to Non-Federal Accounts	37,706
○ Allocated Federal/Levin Activity	25,575
<b>Total Disbursements</b>	<b>\$ 1,284,528</b>
<b>Cash-on-hand @ December 31, 2012</b>	<b>\$ 39,018</b>

## **Part III**

### **Summaries**

#### **Findings and Recommendations**

##### **Finding 1. Misstatement of Financial Activity**

During audit fieldwork, a comparison of KDP's reported financial activity with its bank records revealed misstatements of cash-on-hand, receipts, and disbursements for 2011 and 2012. KDP understated its reported beginning cash-on-hand, receipts, and disbursements in 2011 by \$28,845, \$27,004 and \$64,670, respectively. KDP overstated the reported ending cash-on-hand in 2011 and beginning cash-on-hand in 2012 by \$8,571. KDP understated its receipts and disbursements in 2012 by \$122,088 and 162,640, respectively. KDP overstated its reported ending cash-on-hand in 2012 by \$58,065. The Audit staff recommends that KDP correct these discrepancies on the public record. (For more detail, see p. 6)

##### **Finding 2. Recordkeeping for Employees**

During audit fieldwork, the Audit staff determined that KDP did not maintain any monthly payroll logs, as required, to document the percentage of time each employee spent in connection with a federal election. For 2011 and 2012, the Audit staff identified payments to KDP employees totaling \$332,755, for which KDP did not maintain monthly payroll logs. This included \$314,595 for which payroll was allocated with federal and non-federal funds, and \$3,945 paid directly from non-federal funds.

For KDP employees paid with an allocation of federal and non-federal funds or exclusively non-federal funds, the Audit staff recommends that KDP provide monthly payroll logs that indicate the time spent in connection with a federal election. Absent the provision of monthly time logs, the Audit staff recommends that KDP implement a plan to maintain such monthly payroll logs in the future. (For more detail, see p. 9)

##### **Finding 3. Reporting of Debts & Obligations**

During audit fieldwork, the Audit staff's review of KDP's disbursements indicated that debts owed to six vendors totaling \$53,556 were not disclosed on Schedule D (Debts and Obligations) as required. The Audit staff recommends that, absent documentation demonstrating that these expenditures did not require reporting on Schedule D, KDP correct these discrepancies on the public record. (For more detail, see p. 10)

**Finding 4. Levin Funds Activity**

During audit fieldwork, a review of KDP's reports revealed that KDP did not file any Schedules L (Aggregation Page: Levin Funds), L-A (Itemized Receipts of Levin Funds), or L-B (Itemized Disbursements of Levin Funds), but reported Levin funds transfers to KDP's federal accounts on Schedule H5 (Transfers of Levin Funds Received for Allocated Federal Election Activity) and the Levin share of disbursements on Schedule H6 (Disbursements of Federal and Levin Funds for Allocated Federal Election Activity). The Levin funds activity did not pass through the bank account designated for Levin funds by KDP and no accounting records were provided for the Levin funds activity. The Audit staff recommends that KDP provide the accounting for the Levin funds that were received in and disbursed from KDP's non-federal bank accounts, and correct the discrepancy of Levin funds activity on the public record. (For more detail, see p. 11)

## Part IV

# Findings and Recommendations

### Finding 1. Misstatement of Financial Activity

#### Summary

During audit fieldwork, a comparison of KDP's reported financial activity with its bank records revealed misstatements of cash-on-hand, receipts, and disbursements for 2011 and 2012. KDP understated its reported beginning cash-on-hand, receipts, and disbursements in 2011 by \$28,845, \$27,004 and \$64,670, respectively. KDP overstated the reported ending cash-on-hand in 2011 and beginning cash-on-hand in 2012 by \$8,571. KDP understated its receipts and disbursements in 2012 by \$122,088 and 162,640, respectively. KDP overstated its reported ending cash-on-hand in 2012 by \$58,065. The Audit staff recommends that KDP correct these discrepancies on the public record.

#### Legal Standard

##### A. Contents of Federal 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).
- if the committee makes allocated disbursements for federal election activities using Levin funds:
  - the total amount of each transfer of Levin funds from its Levin or non-federal account, to its federal account, and each transfer from its federal account and its Levin or non-federal account into an allocation account, for the purpose of making such disbursements, and;
  - the total amount of each disbursement allocated between Federal funds and Levin funds, the full name and address of each person to whom the disbursement was made, the date of the disbursement, amount, and purpose of the disbursement and the total amount for the calendar year for each category of federal activity. 11 CFR §300.36 (b)(2)(ii) and (iii).

#### Facts and Analysis

##### A. Facts

During audit fieldwork, the Audit staff reconciled KDP's reported financial activity with its bank records for the calendar years 2011 and 2012 and identified misstatements in cash-on-hand, receipts, and disbursements. The following charts outline the discrepancies and succeeding paragraphs explain, to the extent possible, the reasons for the misstatements.

<b>2011 Activity</b>			
	<b>Reported</b>	<b>Bank Records</b>	<b>Discrepancy</b>
Opening Cash Balance @ January 1, 2011	\$52,222	\$81,067	(\$28,845) Understated
Receipts	\$463,997	\$491,001	(\$27,004) Understated
Disbursements	\$487,760	\$552,430	(\$64,670) Understated
Ending Cash Balance @ December 31, 2011	\$28,209 <sup>2</sup>	\$19,638	\$8,571 Overstated

In 2011, the understatement of receipts resulted from the following:

• In-kind contributions not reported as a receipt	\$11,682
• In-kind contributions reported, but not received	(2,545)
• Transfers from the non-federal accounts not reported	9,206
• Receipts not reported	9,037
• Reported receipts not supported by deposit documentation or credit	(9,981)
• Contribution refund reported as a negative receipt	10,000
• Unexplained differences	<u>(395)</u>
<b>Net Understatement of Receipts</b>	<b><u>\$27,004</u></b>

In 2011, the understatement of disbursements resulted from the following

• In-kind contributions not reported as a disbursement	\$11,682
• In-kind contributions reported, but not received	(2,545)
• Disbursements not reported	66,690
• Disbursements reported not supported by a check or a debit	(11,734)
• Unexplained differences	<u>577</u>
<b>Net Understatement of Disbursements</b>	<b><u>\$64,670</u></b>

<sup>2</sup> KDP miscalculated its ending cash balance. It should be \$28,459 (a difference of \$250). Using the correct ending cash balance (\$28,459), the discrepancy is \$8,821.

<b>2012 Activity</b>			
	<b>Reported</b>	<b>Bank Records</b>	<b>Discrepancy</b>
Opening Cash Balance @ January 1, 2012	\$28,209	\$19,638	\$8,571 Overstated
Receipts	\$629,390	\$751,478	(\$122,088) Understated
Disbursements	\$569,458	\$732,098	(\$162,640) Understated
Ending Cash Balance @ December 31, 2012	\$97,083 <sup>3</sup>	\$39,018	\$58,065 Overstated

In 2012, the understatement of receipts resulted from the following:

• In-kind contributions not reported as a receipt	\$12,725
• Transfers from the non-federal accounts not reported	66,279
• Receipts not reported	46,677
• Reported receipts not supported by deposit documentation or credit	(3,350)
• Unexplained differences	<u>(243)</u>
<b>Net Understatement of Receipts</b>	<b><u>\$122,088</u></b>

In 2012, the understatement of disbursements resulted from the following

• In-kind contributions not reported as a disbursement	\$12,725
• ActBlue fees not reported	1,993
• Disbursements not reported	217,681
• Disbursements reported not supported by a check or a debit	(68,318) <sup>4</sup>
• Voided checks erroneously reported	(300)
• Unexplained differences	<u>(1,141)</u>
<b>Net Understatement of Disbursements</b>	<b><u>\$162,640</u></b>

The misstatement of the beginning and ending cash balances resulted from prior year misstatements and the misstatements described above.

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

At the exit conference, the Audit staff presented the misstatements and provided schedules to KDP representatives. The representatives agreed to review the misstatement amounts and amend after the issuance of the Interim Audit Report.

The Audit staff recommends that, within 30 calendar days of service of this report, KDP correct these discrepancies on the public record.

<sup>3</sup> KDP miscalculated its ending cash balance. It should be \$88,141 (a difference of \$8,942). Using the correct ending cash balance (\$88,141), the discrepancy is \$49,123.

<sup>4</sup> This amount includes \$14,400 over reported on Schedule H6 (see Finding 4).

## **Finding 2. Recordkeeping for Employees**

### **Summary**

During audit fieldwork, the Audit staff determined that KDP did not maintain any monthly payroll logs, as required, to document the percentage of time each employee spent in connection with a federal election. For 2011 and 2012, the Audit staff identified payments to KDP employees totaling \$332,755, for which KDP did not maintain monthly payroll logs. This included \$314,595 for which payroll was allocated with federal and non-federal funds, and \$3,945 paid directly from non-federal funds.

For KDP employees paid with an allocation of federal and non-federal funds or exclusively non-federal funds, the Audit staff recommends that KDP provide monthly payroll logs that indicate the time spent in connection with a federal election. Absent the provision of monthly time logs, the Audit staff recommends that KDP implement a plan to maintain such monthly payroll logs in the future.

### **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 percent 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 between federal and non-federal funds as administrative costs;
- employees who spend more than 25 percent 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 audit fieldwork, the Audit staff reviewed disbursements for payroll. KDP did not provide any monthly payroll logs or equivalent records to Audit staff to document the percentage of time each employee spent in connection with a federal election. These logs are required to document the proper allocation of federal and non-federal funds used to pay employee salaries and wages. For 2011 and 2012, KDP did not maintain monthly logs for \$321,560 in payroll.<sup>5</sup> This amount includes payroll paid as follows to KDP employees:

- i. Employees reported on Schedule H4 (Allocated Federal/Non-Federal Activity) and paid with federal and non-federal funds during the same month (totaling \$314,595); and

<sup>5</sup> This total does not include payroll for employees paid with 100 percent federal funds and reported as such (See Part I, Commission Guidance, Request for Early Consideration of a Legal Question – Recordkeeping for Employees, Page 1). Payroll amounts are stated net of taxes and benefits.

- ii. Employees reported on Schedule H4 and/or Schedule B and also paid with 100 percent non-federal funds during the same month (totaling \$6,965)

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

The Audit staff discussed the recordkeeping requirement with KDP representatives during audit fieldwork and at the exit conference. Subsequently, KDP representatives stated that the executive director of KDP received weekly emails from staff describing in detail what they had worked on for that week. To date, the Audit staff has not received copies of those emails.

In response to the exit conference, KDP submitted affidavits stating that none of the employees whose payroll was reported on Schedule H4 spent more than 25% of their time working on activity in connection with a federal election or on federal election activities.

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

- provide evidence that it maintained monthly time logs to document the percentage of time an employee spent in connection with a federal election;
- implement a plan to maintain monthly payroll logs in the future.

## **Finding 3. Reporting of Debts and Obligations**

### **Summary**

During audit fieldwork, the Audit staff's review of KDP's disbursements indicated that debts owed to six vendors totaling \$53,556 were not disclosed on Schedule D (Debts and Obligations) as required. The Audit staff recommends that, absent documentation demonstrating that these expenditures did not require reporting on Schedule D, KDP correct these discrepancies on the public record.

### **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. Separate Schedules.** A political committee must file separate schedules for debts owed by and to the committee with a statement explaining the circumstances and conditions under which each debt and obligation was incurred or extinguished. 11 CFR §104.11(a).

### **C. Itemizing Debts and Obligations.**

- Once it has been outstanding 60 days from the date incurred, a debt of \$500 or less must be reported 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, except reoccurring administrative expenses (such as rent) shall not be reported as a debt before the payment due date. 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>6</sup> of KDP's vendors. These vendors provided KDP with compliance software, voter ID calls, email services, focus groups, office space, and printing services. KDP did not report any debts on Schedule D.

The Audit staff identified debts owed to six of KDP's vendors totaling \$53,556 that were not reported on Schedule D as required.

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

The Audit staff presented this matter to KDP representatives at the exit conference and provided schedules detailing the unreported debts for each reporting period. In response to the exit conference, KDP agreed to file amendments to correct the debts after the issuance of the Interim Audit Report. The Audit staff recommends that, within 30 calendar days of service of this report, KDP correct the public record for the debt discrepancy totaling \$53,556.

## **Finding 4. Levin Funds Activity**

### **Summary**

During audit fieldwork, a review of KDP's reports revealed that KDP did not file any Schedules L (Aggregation Page: Levin Funds), L-A (Itemized Receipts of Levin Funds), or L-B (Itemized Disbursements of Levin Funds), but reported Levin funds transfers to KDP's federal accounts on Schedule H5 (Transfers of Levin Funds Received for Allocated Federal Election Activity) and the Levin share of disbursements on Schedule H6 (Disbursements of Federal and Levin Funds for Allocated Federal Election Activity). The Levin funds activity did not pass through the bank account designated for Levin funds by KDP and no accounting records were provided for the Levin funds activity. The Audit staff recommends that KDP provide the accounting for the Levin funds that were received in and disbursed from KDP's non-federal bank accounts, and correct the discrepancy of Levin funds activity on the public record.

### **Legal Standard**

**A. Reporting.** If a state, district or local party committee's combined annual receipts and disbursements for federal election activity (FEA) total \$5,000 or more during the calendar year, the committee must disclose receipts and disbursements of federal funds and Levin funds used for FEA. 11 CFR §300.36 (b)(2).

**B. Contents of Levin Reports. Each report must disclose:**

- The amount of cash-on-hand for Levin funds at the beginning and end of the reporting period;

<sup>6</sup> The reconciliation consisted of calculating invoiced and paid amounts for individual reporting periods in the 2011-2012 election 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.

- The total amount of Levin fund receipts and disbursements (including allocation transfers) for the reporting period and for the calendar year; and
- Certain transactions that require itemization on Schedule L-A (Itemized Receipts of Levin Funds) or Schedule L-B (Itemized Disbursements of Levin Funds). 11 CFR §300.36 (b)(2).

**C. Accounts.** Each State party that has receipts or makes disbursements for federal election activity must establish its accounts in accordance with one of the following:

- One or more federal accounts established in accordance with 11 CFR §103, which must be treated as a separate political committee and be required to comply with the requirements of the Act including the registration and reporting requirements of 11 CFR §§102 and 104.
- Establish at least three separate accounts as follows:
  - One or more Federal accounts;
  - One or more Levin accounts; and
  - One or more Non-Federal accounts.
- Establish two separate accounts in depositories as follows:
  - (i) One or more Federal accounts, and;
  - (ii) An account that must function as both a Non-Federal account and a Levin account. If such an account is used, the State, district, and local party must demonstrate through a reasonable accounting method approved by the Commission (including any method embedded in software provided or approved by the Commission) that whenever such organization makes a disbursement for activities undertaken pursuant to 11 CFR §300.32(b), that organization had received sufficient contributions or Levin funds to make such disbursement. 11 CFR §300.30(c).

**D. Recordkeeping for Accounts.** All party organizations or committees must keep records of deposits into and disbursements from such accounts, and, upon request, must make such records available for examination by the Commission. 11 CFR §300.30(d).

## **Facts and Analysis**

### **A. Facts**

During audit fieldwork, a review of KDP's disclosure reports revealed that KDP did not file any Schedules L, L-A or L-B, but reported \$14,400 in Levin funds transfers to KDP's federal accounts on Schedule H5 and \$32,684 in Levin funds share of allocable activity on Schedule H6. The Audit staff reconciled KDP's reported federal financial activity with its federal bank records for the calendar years 2011 and 2012 and determined that of the amount reported on Schedule H6, \$14,400 was over-reported (See Finding 1 - Misstatement of Financial Activity).

KDP had a bank account designated for Levin funds activity, and also used a non-federal bank account for Levin funds activity. The Audit staff requested accounting records for the Levin funds activity that was conducted through the non-federal accounts, but no such records were provided. Since the reported Levin funds activity was not transferred

through the designated Levin bank account, the Audit staff asked KDP for verification that these reported transfers were Levin funds activity. KDP stated that the activity reported on Schedules H5 and H6 was Levin funds activity.

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

The Audit staff presented this matter to KDP representatives at the exit conference, provided schedules detailing the amounts reported on Schedules H5 and H6, and requested accounting records for the reported amounts. In response to the exit conference, a KDP representative stated that the failure to file the required schedules was due to a software error, and that KDP would send additional information regarding the Levin donors. The Audit staff has not received any additional information about the Levin funds activity.

The Audit staff recommends that, within 30 calendar days of service of this report, KDP provide the accounting for the Levin funds that were received in and disbursed from its non-federal bank accounts, and correct the discrepancy of Levin activity on the public record.