



# Draft Final Audit Report of the Audit Division on New American City, Inc. (May 4, 2011 - December 31, 2012)

## Why the Audit Was Done

The Commission audits each host committee or municipal fund that represents a city where a publicly financed nominating convention was held. The audit seeks to determine whether the committee has materially complied with the prohibitions and disclosure requirements of the election law.<sup>1</sup>

## Future Action

The Commission may initiate an enforcement action, at a future date, with respect to any matters disclosed in this report.

## About the Committee (p. 2)

New American City, Inc. (NAC), headquartered in Charlotte, North Carolina, is a committee responsible for hosting the 2012 Democratic National Convention. For more information, see the chart on the Committee Organization (p. 2).

## Financial Activity (p. 3)

• Receipts		
○ Contributor Expenses	of Convention	\$ 19,008,773
○ Total Receipts		\$ 20,068,175
• Disbursements		
○ Total Disbursements		\$ 20,067,044

## Findings and Recommendations (p. 3)

- Misstatement of Financial Activity (Finding 1)
- Disclosure of Receipts (Finding 2)
- Disclosure of Disbursements (Finding 3)
- Reporting of Debts and Obligations (Finding 4)

<sup>1</sup> 11 CFR §9008.54.

# **Draft Final Audit Report of the Audit Division on New American City, Inc.**

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(May 4, 2011 - December 31, 2012)



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# Part I Background

## Authority for Audit

This report is based on an audit of New American City, Inc. (NAC), undertaken by the Audit Division of the Federal Election Commission (the Commission) as mandated by Section 9008.54 of Title 11 of the Code of Federal Regulations. That section states that the Commission shall conduct an examination and audit of each host committee registered under 11 CFR §9008.51.

## Scope of Audit

This audit examined:

1. the receipt of contributions from prohibited sources;
2. the disclosure of contributions and other receipts;
3. the disclosure and nature of disbursement;
4. the disclosure of debts and obligations;
5. and the completeness of records;
6. the consistency between reported figures and bank statements; and
7. other committee operations necessitating a detailed review.

## Inventory of Committee Records

The Audit staff routinely conducts an inventory of committee records before it begins the audit fieldwork. NAC records were materially complete and the fieldwork began thereafter.

## Part II Overview of Committee

### Committee Organization

<b>Important Dates</b>	
• Date of Registration	May 18, 2011
• Audit Coverage	May 4, 2011 to December 31, 2012
<b>Headquarters</b>	Charlotte, Carolina
<b>Bank Information</b>	
• Bank Depositories	One
• Bank Accounts	Two Accounts
<b>Treasurer</b>	
• Treasurer When Audit Was Conducted	Daniel Murrey, M.D.
• Treasurer During Period Covered by Audit	D. Murrey, M.D.
<b>Management Information</b>	
• Attended Commission Campaign Finance Seminar	No
• Who Handled Accounting and Recordkeeping Tasks	staff

### Overview of Financial Activity (Audited Amounts)

Cash-on-hand @ April 1, 2011	\$ 0
<b>Receipts</b>	
o Contributions to Defray Convention Expenses	19,008,773
o Transfers from Affiliated Committees	8,783
o Loans	1,000,000
o Refunds, Rebates, Returns of Deposits	49,669
o Other Income	950
<b>Total Receipts</b>	<b>\$ 20,068,175</b>
<b>Disbursements</b>	
o Convention Expenditures	20,056,269
o Loan Repayments Made	0
o Other Disbursements	10,775
<b>Total Disbursements</b>	<b>\$ 20,067,044</b>
Cash-on-hand @ December 31, 2012	\$ 1,131

## Part III Summaries

### Findings and Recommendations

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

During audit fieldwork, a comparison of NAC's reported financial activity with its bank records revealed a misstatement of financial activity for disbursements during 2011 through 2012. The total of the misstated amounts was \$2,024,213. In response to the Preliminary Audit Report recommendation, NAC filed amended disclosure reports that materially corrected its misstated activity. (For more detail, see p. 4.)

#### **Finding 2. Disclosure of Receipts**

During audit fieldwork, the Audit staff identified 16 receipts totaling \$2,704,569 that were missing or lacked required disclosure information. In response to the Preliminary Audit Report recommendation, NAC filed amended disclosure reports that corrected the receipt disclosure errors. (For more detail, see p. 5.)

#### **Finding 3. Disclosure of Disbursements**

The Audit staff identified 653 disbursements totaling \$4,188,384 that were either missing or lacked required disclosure information. In response to the Preliminary Audit Report recommendation, NAC filed amended disclosure reports that materially corrected the disbursement disclosure errors. (For more detail, see p. 6.)

#### **Finding 4. Reporting of Debts and Obligations**

The Audit staff identified a debt to an equipment rental vendor, in the amount of \$25,425, that was not itemized on Schedule D (Debt and Obligations) as required. In response to the Preliminary Audit Report recommendation, NAC filed amended disclosure reports to properly itemize the debt. (For more detail, see p. 8.)

## Part IV

# Findings and Recommendations

### Finding 1. Misstatement of Financial Activity

#### Summary

During audit fieldwork, a comparison of NAC's reported financial activity with its bank records revealed a misstatement of financial activity for disbursements during 2011 through 2012. The total of the misstated amounts was \$2,024,213. In response to the Preliminary Audit Report recommendation, NAC filed amended disclosure reports that materially corrected its misstated activity.

#### 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 (Schedule A (Itemized Receipts) or Schedule B (Itemized Disbursements). 52 U.S.C. §30104(b)(1), (2), (3), (4) and (5) (formerly 2 U.S.C. §434 (b) (1), (2), (3), (4) and (5)).

#### Facts and Analysis

##### A. Facts

The Audit staff reconciled NAC's reported activity with its bank records and identified a misstatement of disbursements for 2011 through 2012.<sup>2</sup> The following chart details the discrepancies and succeeded in identifying the reasons for the misstatements.

2011 Financial Activity	Reported	Bank Records	Discrepancy
Beg Cash Balance @ May 4, 2011	\$0	\$0	\$0
Receipts	\$20,061,878	\$20,068,175	\$6,297 Understated
Disbursements	\$20,035,206	\$20,067,044	\$31,838 Understated
Ending Cash Balance @ December 31, 2012	\$26,672	\$1,131	\$25,541 Overstated

As indicated in the chart above, reported disbursements for 2011 through 2012 were understated by \$31,838. Furthermore, the Audit staff identified the following adjustments that should be made to correct the reporting of disbursements:

<sup>2</sup> NAC's first receipt of funds was on May 4, 2011.

• Salary, payroll taxes, and processing fees under or not reported	\$ 1,022,043
• Salary and payroll taxes over reported	884,529
• Duplicate disbursement transactions reported	72,855
• Correction to reports for checks that were voided	24,260
• Disbursement amounts over reported (or not debited by the bank)	11,640
• Disbursements not reported	5,968
• Bank corrections erroneously reported as disbursements	2,918
Sum of Reporting Adjustments	<u>\$2,024,213</u>

NAC regularly misreported its payroll and payroll taxes over the entire reporting period which resulted in a salary and payroll tax understatement of \$1,022,043. This consisted of payroll tax understatements totaling \$885,609 and salary understatements totaling \$136,434. Conversely, salary and payroll taxes over reported, \$884,529, consisted of salary payments totaling \$872,394 and payroll taxes totaling \$12,135. This resulted from reporting individual gross salary amounts instead of the net salary amounts.

#### B. Preliminary Audit Report & Audit Division Recommendation

At the exit conference, the Audit staff discussed and provided a schedule of misstatements to NAC representatives. NAC representatives said they would arrange to issue disclosure reports in response to the Preliminary Audit Report.

The Preliminary Audit Report recommended that NAC issue its disclosure reports to correct the misstatements noted above.

#### C. Committee Response to Preliminary Audit Report

In response to the Preliminary Audit Report recommendation, NAC filed amended disclosure reports that corrected its misstated activity.

## Finding 2. Disclosure of Receipts

### Summary

During audit fieldwork, the Audit Division identified 16 receipts totaling \$2,704,569 that were missing required disclosure information. In response to the Preliminary Audit Report recommendation, NAC filed amended disclosure reports that corrected the receipt disclosures.

### Legal Standard

**Required Information for Contributions.** For each itemized contribution, 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 (for individual contributors);
- 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.

11 CFR §§100.12 and 104.3(a)(4) and 52 U.S.C. §30104(b)(3)(A) (formerly 2 U.S.C. §434(b)(3)(A)).



## Facts and Analysis

### A. Facts

The Audit staff identified 16 receipts reported on Schedule A totaling \$2,704,569 (approximately 13 percent of total receipts) that were missing or lacked the required disclosure information. These reporting errors consisted of the following:

- 15 receipts, from 15 different contributors, for \$2,699,394 that did not disclose or inadequately disclosed the correct address; and
- One receipt for \$5,175 that incorrectly disclosed the contributor's name.

### B. Preliminary Audit Report & Audit Division Recommendation

At the exit conference, the Audit staff discussed the disclosure items with NAC representatives and provided a schedule of the receipts disclosed incorrectly. NAC representatives said they would amend their disclosure reports in response to the Preliminary Audit Report.

The Preliminary Audit Report recommended that NAC amend its disclosure reports to correctly disclose these receipts on Schedule A.

### C. Committee Response to Preliminary Audit Report

In response to the Preliminary Audit Report recommendation, NAC filed amended disclosure reports that corrected the reporting disclosure errors.

## Finding 3. Disclosure of Disbursements

### Summary

The Audit staff identified 65 disbursements that were either missing or lacked required disclosure information. In response to the Preliminary Audit Report recommendation, NAC filed amended disclosure reports that materially corrected the

disbursements totaling \$4,188,384 that were either missing or lacked required disclosure information. In response to the Preliminary Audit Report recommendation, NAC filed amended disclosure reports that materially corrected the

### Legal Standard

**A. Reporting Expenditures.** When expenditures to the same person exceed \$200 in a calendar year, the committee must report the:

- amount;
- date when the expenditures were made;
- name and address of the payee; and
- purpose (a brief description of why the disbursement was made). 52 U.S.C. §30104(b)(5)(A) (formerly 2 U.S.C. §434(b)(5)(A)) and 11 CFR §104.3(b)(3)(i).

### B. Examples of Purpose.

- **Adequate Descriptions.** Examples of adequate descriptions of "purpose" include the following: dinner expenses, media, salary, polling, travel, party fees, phone banks, travel expenses, travel expense reimbursement, catering costs, loan repayment, or contribution refund. 11 CFR §104.3 (b)(4)(i)(A).
- **Inadequate Descriptions.** The following descriptions do not meet the requirement for reporting "purpose": advance, election-day expenses, other expenses, expense

reimbursement, miscellaneous, outside services, get-out-the-vote and voter registration. 11 CFR §104.3 (b)(4)(i)(A).

**C. Reporting Credit Card Transactions.** A committee must itemize a payment to a credit card company if the payment exceeds the \$200 aggregate threshold for itemization. The committee must also itemize, as a memo entry, any specific transaction charged on a credit card if the payment to the actual vendor exceeds the \$200 threshold. The memo entry must include the name and address of the vendor, the purpose of the disbursement, and the amount of the disbursement. 11 CFR §§102.9(b)(2) and 104.9.

**D. Reporting Reimbursements to Individuals.** When an individual who is not acting as a vendor advances his or her personal funds (or uses a personal credit card) to pay for goods or services on behalf of a political committee, the reimbursement must be reported as follows:

- **Nontravel Advances.** Report the individual as payee, and report the payments aggregating over \$200 to any one vendor as memo entries on Schedule B; and
- **Travel and Subsistence Advances.** If the total amount reimbursed is \$500 or less, the committee should report the individual as payee. If the total amount reimbursed exceeds \$500 and payments to any one vendor used for travel and subsistence expenses total \$200 or more for the calendar year, report the individual as payee and report the payments aggregating over \$200 to any one vendor as memo entries on Schedule B. Each memo entry must include the name and address of the vendor, as well as the date, amount and purpose of the payment. 11 CFR §104.3(b)(3)(i) and 104.9.

## Facts and Analysis

### A. Facts

The Audit staff identified 65 reimbursements totaling \$4,188,384 (approximately 21 percent of total disbursement) missing or lacked the required disclosure information. The majority of disclosures were related to the reporting of addresses and purposes. See the exhibit.

Description	Number of Transactions	Dollar Value
Payments with a missing or incomplete address disclosure.	224	\$1,099,179
Payments missing or having an inadequate disclosure of purpose.	208	\$2,671,674
Credit card payments lacking memo entry disclosures.	71	\$268,473
Other payment disclosure errors. <sup>3</sup>	150	\$149,058
<b>Total</b>		<b>\$4,188,384</b>

<sup>3</sup> Seventy-one transactions totaling \$93,312 had missing or incomplete addresses and inadequate purposes. Seventy-nine reimbursements to individuals totaling \$55,746 lacked memo entries to the ultimate payee. Of these transactions, some also improperly or inadequately disclosed the address and/or purpose of the transactions. For the 79 transactions described above, 33 were for employee travel/subsistence expense reimbursements exceeding the \$500 reporting threshold and 46 were for non-travel reimbursements exceeding the \$200 aggregate memo reporting threshold.

### B. Preliminary Audit Report & Audit Division Recommendation

At the exit conference, the Audit staff discussed the disclosure items with NAC representatives and provided a schedule detailing these items. NAC representatives said they would amend their disclosure reports in response to the Preliminary Audit Report.

The Preliminary Audit Report recommended that NAC amend its disclosure reports to correctly disclose these disbursements on Schedule B.

### C. Committee Response to Preliminary Audit Report

In response to the Preliminary Audit Report recommendation, NAC filed amended disclosure reports that materially corrected the disbursement disclosure errors.

## Finding 4. Reporting of Debts and Obligations

### Summary

The Audit staff identified a debt to an equipment rental vendor, in the amount of \$25,425, that was not itemized on Schedule D (Debts and Obligations) as required. In response to the Preliminary Audit Report recommendation, NAC filed amended disclosure reports to properly itemize the debt.

### Legal Standard

#### Reporting of Debts and Obligations

- A. Continuous Reporting Required. A political committee must disclose the amount and nature of outstanding debts and obligations until the debts are extinguished. 52 U.S.C §30104(b)(8) (for 2 U.S.C. §434(b)(1) and 11 CFR §§104.3(d) and 104.11(a).
- B. Separate Schedules. A political committee must file separate schedules for debts owed by the committee and debts owed to the committee, together 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.
  - A debt of \$500 or more 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 identified a debt to an equipment rental vendor, in the amount of \$25,425, arising from a transaction on August 21, 2012 that was outstanding until October 26, 2012. NAC did not report this amount as an itemized debt on Schedule D, as required, for both its Post Convention and Year End reports.

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

At the exit conference, the Audit staff provided details and discussed the undisclosed debt with NAC representatives. NAC representatives said they would amend their disclosure reports in response to the Preliminary Audit Report.

The Preliminary Audit Report recommended that NAC amend its disclosure reports to itemize this debt on Schedule D.

**C. Committee Response to Preliminary Audit Report**

In response to the Preliminary Audit Report recommendation, NAC filed amended disclosure reports to properly itemize the debt.