



Draft Final Audit Report of the Audit Division on Ted Lieu for Congress

(February 18, 2014 - December 31, 2014)

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 the matter discussed in this report.

About the Campaign (p. 2)

Ted Lieu for Congress is the principal campaign committee for Ted Lieu, Democratic candidate for the U.S. House of Representatives from the state of California, 33rd District, and is headquartered in Encino, California. For more information, see the Campaign Organization chart, p.

Financial Activity (p. 2)

• Receipts		
○ Contributions from Individuals		\$ 1,686,988
○ Contributions from Political Committees		543,129
○ Contributions from Other Committees		5,200
○ Transfers from Other Authorized Committees		46,300
○ Loans from the Candidate		76,000
○ Other Receipts		11,357
Total Receipts		\$ 2,456,784
• Disbursements		
○ Operating Expenditures		\$ 2,115,224
○ Loan Repayments to the Candidate		76,000
○ Contribution Refunds		17,600
○ Other Disbursements		133,500
Total Disbursements		\$ 2,342,324

Finding and Recommendation (p. 3)

- Misstatement of Financial Activity

¹ 52 U.S.C. §30111(b).

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Part I Background

Authority for Audit

This report is based on an audit of Ted Lieu for Congress (TLFC), 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 staff evaluated various risk factors and as a result, this audit examined:

1. the receipt of excessive contributions and loans,
2. the receipt of contributions from prohibited source;
3. the disclosure of contributions received;
4. the disclosure of individual contributions, contribution amount, and name of employer;
5. the consistency between reported figures and bank statements;
6. the completeness of records; and
7. other committee operations necessary to the review.

Part II Overview of Campaign

Campaign Organization

Important Dates	
• Date of Registration	February 6, 2014
• Audit Coverage	February 18, 2014 - December 31, 2014
Headquarters	Encino, California
Bank Information	
• Bank Depositories	Two
• Bank Accounts	One Checking, C
Treasurer	
• Treasurer When Audit Was Conducted	Jane Leiderman
• Treasurer During Period Covered by Audit	Jane Leiderman
Management Information	
• Attended Commission Campaign Finance Seminar	No
• Who Handled Accounting and Recordkeeping Tasks	Staff

Overview of Financial Activity (Audited Amounts)

Cash-on-hand @ February 18, 2014	\$ 0
Receipts	
o Contributions from Individuals	1,686,988
o Contributions from Political Committees	543,129
o Contributions from the Candidate	5,200
o Transfers from Other Authorized Committees	46,300
o Loans from the Candidate	76,000
o Offsets to Operating Expenditures	11,357
o Other Receipts	87,810
Total Receipts	\$ 2,456,784
Disbursements	
o Operating Expenditures	2,115,224
o Loan Repayments to the Candidate	76,000
o Contribution Refunds	17,600
o Other Disbursements	133,500
Total Disbursements	\$ 2,342,324
Cash-on-hand @ December 31, 2014	\$ 114,460

Part III Summary

Finding and Recommendation

Misstatement of Financial Activity

During audit fieldwork, a comparison of TLFC's reported financial activity with its bank records revealed a misstatement of receipts and disbursements for calendar year 2014. TLFC understated its receipts by \$87,748 and understated its disbursements by \$92,802. In response to the Interim Audit Report recommendation, TLFC filed amended disclosure reports that materially corrected the misstatements for calendar year 2014. (For more detail, see p. 4.)

Part IV

Finding and Recommendation

Misstatement of Financial Activity

Summary

During audit fieldwork, a comparison of TLFC's reported financial activity with its bank records revealed a misstatement of receipts and disbursements for calendar year 2014. TLFC understated its receipts by \$87,748 and understated its disbursements by \$92,802. In response to the Interim Audit Report recommendation, TLFC filed amended disclosure reports that materially corrected the misstatements for calendar year 2014.

Legal Standards

A. 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 election cycle, including other forms of receipts;
- the total amount of disbursements for the reporting period and for the election cycle;
- transfers to other committees authorized by the same candidate;
- any other disbursements; 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).

B. Categories of Receipts for Authorized Committees.

An authorized committee of a candidate for Federal office shall report the total amount of other receipts received during the reporting period and during the election cycle. 11 C.F.R. § 102.17(a)(1)(i).

C. Categories of Disbursements for Authorized Committees.

An authorized committee of a candidate for Federal office shall report the total amount of transfers to other committees authorized by the same candidate made during the reporting period. 11 C.F.R. § 102.17(a)(2)(ii).

D. Joint Fundraising by Committees.

The participants in a joint fundraising effort under this section shall either establish a separate committee or select a participating committee, to act as fundraising representative for all participants. The fundraising representative shall be a reporting political committee and an authorized committee of each candidate for federal office participating in the joint fundraising activity. 11 C.F.R. § 102.17(a)(1)(i).

Facts and Analysis

A. Facts

As part of audit fieldwork, the Audit staff reconciled TLFC's reported activity with its bank records for calendar year 2014. The reconciliation revealed that TLFC misstated its receipts and disbursements. The following chart outlines the discrepancies between TLFC's 2014 disclosure reports and its bank records, and the succeeding paragraphs explain why the discrepancies occurred.

2014 Campaign Activity			
	Reported	Bank Records	Discrepancy
Beginning Cash Balance @ February 18, 2014	\$0		\$0
Receipts	\$2,369,036	\$2,456,824	\$87,748 Understated
Disbursements	\$2,342,324	\$2,342,324	\$92,802 Understated
Ending Cash Balance @ December 31, 2014	\$121,864 ²	\$114,460	\$7,404 Overstated

The understatement of receipts resulted from the following:

• Contributions for Lieu Victory Fund, ³ not reported	\$ 86,750
• Other receipts, not reported	998
Understatement of Receipts	<u>\$ 87,748</u>

The understatement of disbursements resulted from the following:

• Transfers of Lieu Victory Fund contributions, not reported	\$ 86,750
• Other disbursements, not reported	7,540
• Under-reported disbursements	2
• Over-reported disbursements	(1,490)
Net understatement of Disbursements	<u>\$ 92,802</u>

The \$7,404 overstatement of the ending cash balance resulted from the misstatements described above, as well as from a \$2,350 mathematical discrepancy in calculating the ending cash balance.

² TLFC miscalculated its ending cash balance. It should be \$119,514 (a difference of \$2,350). Using the correct ending cash balance (\$119,514), the discrepancy is \$5,054.

³ On April 17, 2014, TLFC entered into a joint fundraising agreement with the Democratic State Central Committee of CA – Federal. The agreement established both committees as participants and a new committee, Lieu Victory Fund, was formed to serve as the fundraising representative. TLFC did not disclose Lieu Victory Fund as a joint fundraising representative or the depository established to receive and distribute proceeds on its Statement of Organization, received on February 7, 2014. TLFC and Lieu Victory Fund share the same treasurer, Jane Leiderman.

Regarding the \$86,750 in receipts and disbursements that were not reported by TLFC, the Audit staff determined that TLFC processed credit card contributions designated for the Lieu Victory Fund. Per the TLFC treasurer, these credit card contributions were received on donation forms designating the Lieu Victory Fund as the recipient committee. The treasurer further informed the Audit staff that the Lieu Victory Fund had no way to accept/deposit credit card contributions because it had not established a credit card merchant account. Alternatively, the Lieu Victory Fund used TLFC's credit card merchant account to process its credit card contributions and then periodically transferred these contributions in bulk to the Lieu Victory Fund. TLFC did not report the receipt of these credit card contributions or the transfer (disbursement) to the Lieu Victory Fund. However, TLFC did report the subsequent transfers of net proceeds from Lieu Victory Fund (including memo entries of the gross amounts), and the Lieu Victory Fund itemized each of the credit card contributions on its disclosure reports.

B. Interim Audit Report & Audit Division Recommendation

The Audit staff discussed the misstatement during the exit conference and provided the treasurer with supporting documentation. The treasurer stated that the credit card contributions deposited into the TLFC account were accurately reported by Lieu Victory Fund and that \$46,000 of the \$86,750 in contributions ultimately wound up coming back to TLFC as its share of proceeds from the joint fundraiser. The treasurer added that the proceeds had also been properly reported to the Lieu Victory Fund.

In response to the exit conference, the treasurer stated that the decision to utilize the TLFC merchant account to process Lieu Victory Fund contributions was made when "the campaign was in full mode and all the money needed to be processed immediately." She further added that, as the TLFC treasurer, it was acceptable to use the TLFC merchant account for the following reasons:

- Contributors would not identify the contribution to Lieu Victory Fund;
- Money contributed by Lieu Victory Fund disbursements to the fundraiser participants;
- TLFC transferred funds to reimburse Lieu Victory Fund the same day that the credit card contributions were processed by the TLFC merchant account. The treasurer further stated that TLFC did not misuse the funds nor did it use any of the funds intended for Lieu Victory Fund.

Alternatively, the treasurer stated that she could have processed the credit card contributions through her company's merchant account and made a disbursement to Lieu Victory Fund. But, she thought this method may cause complications with contributors not being able to easily identify a charge to their credit cards.

In accordance with 52 U.S.C. §30104(b)(2), an authorized committee must report all of its receipts and disbursements, including, more specifically, transfers of funds to a candidate's other authorized committees. Although the funds received may or may not ultimately be characterized as contributions to TLFC, they were, nevertheless, at least reportable as receipts. As a registered and, therefore, a reporting committee TLFC was

required to report, at a minimum, the receipt of these contributions as "other receipts." 52 U.S.C. §30104(b)(2)(J); 11 C.F.R. §104.3(a)(3)(x). Regarding the disbursements (transfers) to Lieu Victory Fund, a joint fundraising representative is considered an authorized committee of each candidate who participates in the joint fundraising arrangement. 11 C.F.R. §102.17(a)(1)(i). An authorized committee of a candidate is required to report transfers of funds made to other authorized committees of the same candidate. 11 C.F.R. §104.3(b)(2)(ii). Thus, TLFC was required to report its disbursements of funds to Lieu Victory Fund.

The Interim Audit Report recommended that TLFC amend its disclosure reports to correct the misstatements noted above and reconcile the cash balance on its most recent report to identify any subsequent discrepancies that could affect the recommended adjustments. Further, TLFC was recommended to adjust the cash balance, as necessary, on its most recent report, noting that the adjustment was the result of prior-period audit adjustments.

C. Committee Response to Interim Audit Report

In response to the Interim Audit Report recommendation, TLFC filed amended disclosure reports that materially corrected the misstatements for calendar year 2014. TLFC also filed an amended Statement of Organization identifying Lieu Victory Fund as a joint fundraising representative.