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**MEMORANDUM**

**AGENDA ITEM**

To: The Commission

Through: Alec Palmer  
Staff Director

From: Patricia C. Orrock *PCO*  
Chief Compliance Officer

Thomas E. Hintermister *for PCO*  
Assistant Staff Director  
Audit Division

Doug Kodish *Duke*  
Audit Manager

By: Paula Nurthen *PN*  
Lead Auditor *for PN*

Subject: Proposed Final Audit Report on Dallas County Republican Party (A11-14)

For Meeting of 3-6-14

**SUBMITTED LATE**

Attached for your approval is the subject report. The report has been revised to incorporate proposed edits as shown in the attached document. The revised report is being circulated for placement on the March 6, 2014 Commission Open Session agenda. Documents related to this audit report can be viewed in the Voting Ballot Matters folder.

If you have any questions, please contact Paula Nurthen or Doug Kodish at 694-1200.

Attachment:  
Proposed Final Audit Report on Dallas County Republican Party (Redline Version)



# Proposed Final Audit Report on the Dallas County Republican Party

(January 1, 2009 - December 31, 2010)

## 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 Committee (p. 2)

The Dallas County Republican Party<sup>2</sup> is a local party committee headquartered in Dallas, Texas. For more information, see the chart on the Committee Organization, p. 2.

## Financial Activity (p. 2)

• <b>Receipts</b>	
○ Contributions from Individuals	\$ 350,116
○ Transfers from Non-federal Account	196,000
○ Other Federal Receipts	1,009
<b>Total Receipts</b>	<b>\$ 547,125</b>
• <b>Disbursements</b>	
○ Operating Expenditures	\$ 480,625
○ Federal Election Activity	36,372
○ Other Disbursements	31,000
<b>Total Disbursements</b>	<b>\$ 547,997</b>

## Commission Findings (p. 3)

- Misstatement of Financial Activity (Finding 1)
- Recordkeeping for Employees (Finding 2)

<sup>1</sup> 2 U.S.C. §438(b).

<sup>2</sup> On August 16, 2011, the Dallas County Republican Party changed its name to Dallas County Republican Party – Primary.

# **Proposed Final Audit Report on the Dallas County Republican Party**

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(January 1, 2009 - December 31, 2010)



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# Part I

## Background

### Authority for Audit

This report is based on an audit of the Dallas County Republican Party (DCRP), 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 2 U.S.C. §438(b), which permits the Commission to conduct audits and field investigations of any political committee that is required to file a report under 2 U.S.C. §434. 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. 2 U.S.C. §438(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 individual contributors' occupation and name of employer;
2. the disclosure of disbursements, debts and obligations;
3. the disclosure of expenses allocated between federal and non-federal accounts;
4. the consistency between reported figures and bank records;
5. the completeness of records; and
6. other committee operations necessary to the review.

### Commission Guidance

#### Request for Early Commission Consideration of a Legal Question

Pursuant to the Commission "Policy Statement Establishing a Program for Requesting Consideration of Legal Questions by the Commission," several state party committees unaffiliated with DCRP requested early consideration of a legal question raised during an audit. 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 not to 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. Audit staff informed DCRP's representative of the payroll log requirement and of 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, excluding amended filings. Finding 2 of this audit report (Recordkeeping for Employees) does not include any DCRP employees paid with 100 percent federal funds and reported as such.

### Audit Hearing

DCRP declined the opportunity for a hearing before the Commission on matters presented in this report.

## Part II

### Overview of Committee

#### Committee Organization

<b>Important Dates</b>	
• Date of Registration	February 5, 1999
• Audit Coverage	January 1, 2009 - December 31, 2010
<b>Headquarters</b>	
Dallas, Texas	
<b>Bank Information</b>	
• Bank Depositories	One
• Bank Accounts	One federal, three non-federal, one Levin
<b>Treasurer</b>	
• Treasurer When Audit Was Conducted	Honorable Wade Emmert
• Treasurer During Period Covered by Audit	Jonathan Neerman
<b>Management Information</b>	
• Attended Commission Campaign Finance Seminar	Yes
• Who Handled Accounting and Recordkeeping Tasks	Paid staff

#### Overview of Financial Activity (Audited Amounts)

<b>Cash-on-hand @ January 1, 2009</b>	<b>\$ 1,374</b>
<b>Receipts</b>	
○ Contributions from Individuals	350,116
○ Transfers from Non-federal Account	196,000
○ Other Federal Receipts	1,009
<b>Total Receipts</b>	<b>\$ 547,125</b>
<b>Disbursements</b>	
○ Operating Disbursements	480,625
○ Federal Election Activity	36,372
○ Other Disbursements	31,000
<b>Total Disbursements</b>	<b>\$ 547,997</b>
<b>Cash-on-hand @ December 31, 2010</b>	<b>\$ 502</b>

## **Part III**

### **Summaries**

#### **Commission Findings**

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

During audit fieldwork, a comparison of DCRP's reported financial activity with its bank records revealed that, for 2010, DCRP understated its reported receipts and disbursements by \$31,817 and \$32,201, respectively. In response to the Interim Audit Report recommendation, DCRP amended its reports and materially corrected its misstatements.

The Commission approved a finding that DCRP misstated its financial activity for calendar year 2010. (For more detail, see p. 4.)

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

During audit fieldwork, the Audit staff determined that DCRP did not maintain any monthly payroll logs, as required, to document the percentage of time each employee spent on federal election activity. For 2009 and 2010, the Audit staff identified payments to DCRP employees totaling \$85,520 for which monthly payroll logs were not maintained. This consisted of \$70,520 for which DCRP reported payroll disbursements allocated between federal and non-federal funds, and \$15,000 that was paid from an exclusively non-federal account during periods in which the same employee was also paid from a federal account.

In response to the Interim Audit Report recommendation, DCRP agreed to maintain monthly payroll logs to track federal election activity for non-federal payroll and payroll allocated between federal and non-federal activity. The Audit staff considered the matter resolved.

The Commission approved a finding that DCRP failed to maintain logs to document the time employees spent on federal election activity totaling \$85,520. (For more detail, see p. 6.)

## Part IV

# Commission Findings

### Finding 1. Misstatement of Financial Activity

#### Summary

During audit fieldwork, a comparison of DCRP's reported financial activity with its bank records revealed that, for 2010, DCRP understated its reported receipts and disbursements by \$31,817 and \$32,201, respectively. In response to the Interim Audit Report recommendation, DCRP amended its reports and materially corrected its misstatements.

The Commission approved a finding that DCRP misstated its financial activity for calendar year 2010.

#### 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). 2 U.S.C. §434(b)(1), (2), (3), (4) and (5).

#### Facts and Analysis

##### A. Facts

During audit fieldwork, the Audit staff reconciled reported financial activity with bank records for calendar years 2009 and 2010 and identified a misstatement of receipts and disbursements for 2010. The following chart outlines the discrepancies.

<b>2010 Activity</b>			
	<b>Reported</b>	<b>Bank Records</b>	<b>Discrepancy</b>
Opening Cash Balance @ January 1, 2010	\$1,178	\$2,045	\$867 Understated
Receipts	\$287,185	\$319,002	\$31,817 Understated
Disbursements	\$288,344	\$320,545	\$32,201 Understated
Ending Cash Balance @ December 31, 2010	\$19	\$502	\$483 Understated

The understatement of receipts resulted from the following.

• Credit card deposit not reported	\$ 24,277
• March 2010 deposits not reported	5,995
• On-line deposit not reported	1,720
• Miscellaneous identified amounts	<u>(175)</u>
<b>Net Understatement of Receipts</b>	<b><u>\$ 31,817</u></b>

The understatement of disbursements resulted from the following.

• Transfers to non-federal account not reported	\$ 31,000
• Miscellaneous disbursements not reported	1,341
• Unidentified difference	<u>(140)</u>
<b>Net Understatement of Disbursements</b>	<b><u>\$ 32,201</u></b>

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

At the exit conference, the Audit staff explained the misstatements and provided schedules to DCRP representatives. The representatives offered no comments during or subsequent to the exit conference.

The Interim Audit Report recommended that DCRP amend its reports to correct the misstatements noted above.

### **C. Committee Response to Interim Audit Report**

In response to the Interim Audit Report recommendation, DCRP filed amended reports for 2010 that materially corrected its misstatements.

### **D. Draft Final Audit Report**

The Draft Final Audit Report acknowledged that DCRP amended its reports and materially corrected its misstatements.

### **E. Committee Response to the Draft Final Audit Report**

DCRP responded to the Draft Final Audit Report and stated that they had no additional comments.

### **Commission Conclusion**

On January 30, 2014, the Commission considered the Audit Division Recommendation Memorandum in which the Audit staff recommended that the Commission adopt a finding that DCRP misstated its financial activity for calendar year 2010.

The Commission approved the Audit staff's recommendation.

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

### **Summary**

During audit fieldwork, the Audit staff determined that DCRP did not maintain any monthly payroll logs, as required, to document the percentage of time each employee spent on federal election activity. For 2009 and 2010, the Audit staff identified payments to DCRP employees totaling \$85,520 for which monthly payroll logs were not maintained. This consisted of \$70,520 for which DCRP reported payroll disbursements allocated between federal and non-federal funds, and \$15,000 that was paid from an exclusively non-federal account during periods in which the same employee was also paid from a federal account.

In response to the Interim Audit Report recommendation, DCRP agreed to maintain monthly payroll logs to track federal election activity for non-federal payroll and payroll allocated between federal and non-federal activity. The Audit staff considered the matter resolved.

The Commission approved a finding that DCRP failed to maintain logs to document the time employees spent on federal election activity totaling \$85,520.

### **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 have their pay allocated 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 fieldwork, the Audit staff reviewed disbursements for payroll. DCRP did not maintain any monthly logs or equivalent records to document the percentage of time each employee spent in connection with federal election activity. These logs are required to document the proper allocation of federal and non-federal funds used to pay employee salaries and wages. For 2009 and 2010, logs were not maintained for \$85,520<sup>3</sup> in payroll disbursements. The \$85,520 consisted of \$70,520 for which payroll disbursements were allocated between federal and non-federal funds, and \$15,000 that was paid from an

<sup>3</sup> Amounts are net of payroll taxes and benefits totaling \$22,896. This total does not include payroll for employees paid with 100 percent federal funds and reported as such. (See Part I, Background, Commission Guidance, Request for Early Commission Consideration of a Legal Question on Page 1).

exclusively non-federal account during periods in which the same employee was also paid from a federal account.

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

At the exit conference and during audit fieldwork, the Audit staff discussed the payroll recordkeeping issue with DCRP representatives. The representatives offered no additional comments or documentation to support the expenses.

For DCRP employees that were paid with exclusively non-federal funds or an allocation of federal and non-federal funds, the Interim Audit Report recommended that DCRP provide the following:

- evidence that DCRP had maintained monthly time logs to document how much time the employee had spent on federal election activity;
- or
- provide and implement a plan to maintain monthly payroll logs to track the percentage of time each employee spends on federal election activity.

#### **C. Committee Response to Interim Audit Report**

In response to the Interim Audit Report recommendation, DCRP agreed to maintain monthly payroll logs to track federal election activity for non-federal payroll and payroll allocated between federal and non-federal activity. Such action is consistent with Commission guidance with respect to payroll logs. The Audit staff considered the matter resolved.

#### **D. Draft Final Audit Report**

The Draft Final Audit Report acknowledged that DCRP agreed to maintain logs to track federal election activity for non-federal payroll and payroll allocated between federal and non-federal activity.

#### **E. Committee Response to the Draft Final Audit Report**

DCRP responded to the Draft Final Audit Report and stated that they had no additional comments.

#### **Commission Conclusion**

On January 30, 2014, the Commission considered the Audit Division Recommendation Memorandum in which the Audit staff recommended that the Commission adopt a finding that DCRP failed to maintain logs to document the time employees spent on federal election activity totaling \$85,520.

The Commission approved the Audit staff's recommendation.