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FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

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March 6, 2014

MEMORANDUM

AGENDA ITEM

To: The Commission

For Meeting of 3-6-14

Through: Alec Palmer
Staff Director

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

SUBMITTED LATE

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

Zuzana O. Pacious *ZP*
Audit Manager

Kendrick Smith *KS*
Audit Manager

By: Rhonda Gillingwater *RG/ZP*
Lead Auditor

Subject: Proposed Final Audit Report on Republican Party of Iowa (A11-24)

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 Rhonda Gillingwater or Zuzana Pacious at 694-1200.

Attachment:
Proposed Final Audit Report on Republican Party of Iowa



Proposed Final Audit Report on the Republican Party of Iowa (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.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. 3)

The Republican Party of Iowa is a state party committee headquartered in Des Moines, Iowa. For more information, see chart on Committee Organization, p. 3.

Financial Activity (p. 3)

• Receipts	
○ Contributions from Individuals	\$ 1,130,254
○ Contributions from Other Political Committees	489,716
○ Transfers from Political Committees	633,129
○ Non-federal Transfers	325,042
○ Other Receipts	164,904
Total Receipts	\$ 2,743,045
• Disbursements	
○ Operating Expenditures	\$ 953,976
○ Federal Election Activity	526,610
○ Allocated Federal/Non-federal Expenditures	931,448
○ Coordinated Expenditures	276,578
○ Other Disbursements	54,736
Total Disbursements	\$ 2,743,348

Commission Finding (p. 4)

- Recordkeeping for Employees (Finding 1)
- Failure to Itemize Debts & Obligations (Finding 2)

Additional Issue (p. 4)

- Recordkeeping for Employees

¹ 2 U.S.C. §438(b).

Proposed Final Audit Report on the Republican Party of Iowa

(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 Republican Party of Iowa (RPIA), 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 whether 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 receipt of excessive contributions and loans;
2. the disclosure of individual contributors' occupation and name of employer;
3. the consistency between reported figures and bank records;
4. the disclosure of disbursements, debts, and obligations;
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's "Policy Statement Establishing a Program for Requesting Consideration of Legal Questions by the Commission," several state party committees unaffiliated with RPIA 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 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. Audit staff informed RPIA representatives 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. Finding 1, Recordkeeping for Employees, of this audit report does not include RPIA employees paid with 100 percent federal funds and reported as such.

Audit Hearing

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

Part II

Overview of Committee

Committee Organization

Important Dates	
• Date of Registration	October 14, 1975
• Audit Coverage	January 1, 2009 - December 31, 2010
Headquarters	Des Moines, Iowa
Bank Information	
• Bank Depositories	One
• Bank Accounts	Four federal, one Non-federal, and one building fund account
Treasurer	
• Treasurer When Audit Was Conducted	Craig Williams 7/9/10-6/15/12
• Treasurer During Period Covered by Audit	Gopal Krishna 6/24/08-1/26/09 Matt Randall 1/27/09-7/08/10
Management Information	
• Attended Commission Campaign Finance Seminar	No
• Who Handled Accounting and Recordkeeping Tasks	Paid Staff

Overview of Financial Activity (Audited Amounts)

Cash-on-hand @ January 1, 2009	\$ 218,208
Receipts	
○ Contributions from Individuals	1,130,254
○ Contributions from Other Political Committees	489,716
○ Transfers from Political Committees	633,129
○ Non-federal Transfers	325,042
○ Other Receipts	164,904
Total Receipts	\$ 2,743,045
Disbursements	
○ Operating Expenditures	953,976
○ Federal Election Activity	526,610
○ Allocated Federal/Non-federal Expenditures	931,448
○ Coordinated Expenditures	276,578
○ Other Disbursements	54,736
Total Disbursements	\$ 2,743,348
Cash-on-hand @ December 31, 2010	\$ 217,905

Part III

Summaries

Commission Findings

Finding 1. Recordkeeping for Employees

During audit fieldwork, the Audit staff determined that RPIA did not maintain monthly payroll logs, as required, to track the percentage of time each employee spent on federal election activity. For 2009 and 2010 the Audit staff determined that the amount of payroll for which logs were required was \$476,442. This consisted of \$334,580 reported as allocated between federal and non-federal funds and \$141,862 paid from an exclusively non-federal account. Subsequent to the exit conference, RPIA representatives provided the Audit staff with affidavits from two employees attesting to the percentage of time spent on federal election activity.

In response to the Interim Audit Report recommendation, RPIA stated that it has implemented a plan to keep a monthly log of all work performed by staff for federal election activity.

The Commission approved a finding that RPIA failed to keep monthly time-logs for the \$336,569 in payroll allocated between federal and non-federal funds. The Commission did not approve a finding for the payroll paid exclusively with non-federal funds and as such these expenses are presented as an “Additional Issue”. (For more detail, see p. 6.)

Finding 2. Failure to Itemize Debts & Obligations

During audit fieldwork, the Audit staff noted that RPIA had failed to disclose debts and obligations totaling \$179,856. In response to the Interim Audit Report recommendation, RPIA filed amended reports to correctly disclose these debts and obligations.

The Commission approved a finding that RPIA failed to itemize debts and obligations totaling \$179,856. (For more detail, see p. 8.)

Additional Issue

Recordkeeping for Employees

As detailed in Finding 1 above, RPIA did not maintain monthly payroll logs to track the percentage of time each employee spent on federal election activity. For 2009 and 2010, the amount of payroll for which the Audit staff determined that logs were required, was \$476,442. This consisted of \$334,580 reported as allocated between federal and non-federal funds and \$141,862 paid from an exclusively non-federal account during certain months.

In response to the Interim Audit Report recommendation, RPIA stated that it has implemented a plan to keep a monthly log of all work performed by staff for federal election activity.

The Commission did not approve by the required four votes the Audit staff's recommended finding that RPIA failed to keep monthly time logs for the \$141,066 in payroll paid from an exclusively non-federal account during certain months.

Pursuant to Commission Directive 70², this matter is discussed in the "Additional Issue" section and the payroll expenditures of \$141,066 are not included in Finding 1. (For more detail, see p. 10.)

² Available at http://www.fec.gov/directives/directive_70.pdf.

Part IV

Commission Findings

Finding 1. Recordkeeping for Employees

Summary

During audit fieldwork, the Audit staff determined that RPIA did not maintain monthly payroll logs, as required, to track the percentage of time each employee spent on federal election activity. For 2009 and 2010 the Audit staff determined that the amount of payroll for which logs were required was \$476,442. This consisted of \$334,580 reported as allocated between federal and non-federal funds and \$141,862 paid from an exclusively non-federal account. Subsequent to the exit conference, RPIA representatives provided the Audit staff with affidavits from two employees attesting to the percentage of time spent on federal election activity.

In response to the Interim Audit Report recommendation, RPIA stated that it has implemented a plan to keep a monthly log of all work performed by staff for federal election activity.

The Commission approved a finding that RPIA failed to keep monthly time-logs for the \$336,569 in payroll allocated between federal and non-federal funds. The Commission did not approve a finding for the payroll paid exclusively with non-federal funds and as such these expenses are presented as an “Additional Issue”.

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 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 made to employees totaling \$476,442³ for which RPIA did not provide monthly payroll logs to document the

³ 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, page 1). Payroll amounts are stated net of taxes and fringe benefits.

percentage of time the employee spent in connection with federal election activity. Logs are required to document the proper allocation of federal and non-federal funds used to pay these workers. The total of \$476,442 consisted of \$334,580 reported as allocated between federal and non-federal funds, and \$141,862 that was paid from an exclusively non-federal account.

B. Interim Audit Report & Audit Division Recommendation

The Audit staff discussed the recordkeeping issue with RPIA representatives during audit fieldwork and at the exit conference. While the representatives did not address logs or other documentation to support the payroll recordkeeping requirements, they pointed out that RPIA Counsel had drafted affidavits to document the work performed by RPIA employees. Subsequently, RPIA provided affidavits from two employees who attested to the percentage of time they had spent in connection with federal election activity. These documents, however, do not resolve the recordkeeping finding because RPIA provided the affidavits only after notification of the audit. As such, RPIA did not appear to satisfy the requirement to maintain and provide payroll records during or prior to audit fieldwork.

The Interim Audit Report recommended that RPIA provide evidence that it maintained monthly time logs to document employees' time spent on federal election activity, or, that it had implemented 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, RPIA stated that it has implemented a plan to keep a monthly log of all work performed by staff for federal election activity. RPIA further stated that a log is kept and completed by the Executive Director of RPIA and shared with the Treasurer of RPIA. Upon discussion and agreement by these RPIA officials, the log is then saved as both an electronic and paper copy in a secure location. This plan is consistent with Commission guidance with respect to payroll logs.

D. Draft Final Audit Report

The Draft Final Audit Report acknowledged that RPIA 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

RPIA's response to the Draft Final Audit Report provided 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 RPIA failed to maintain logs to document the time employees spent on federal election activity totaling \$476,442.

The Commission approved a finding that RPIA failed to keep monthly time-logs for the \$336,569⁴ in payroll allocated between federal and non-federal funds. The Commission did not approve a finding for the payroll paid exclusively with non-federal funds during a given month and as such the matter is presented as an “Additional Issue”.

Finding 2. Failure to Itemize Debts & Obligations

Summary

During audit fieldwork, the Audit staff noted that RPIA had failed to disclose debts and obligations totaling \$179,856. In response to the Interim Audit Report recommendation, RPIA filed amended reports to correctly disclose these debts and obligations. The Audit staff considers this matter resolved.

The Commission approved a finding that RPIA failed to itemize debts and obligations totaling \$179,856.

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.

2 U.S.C §434(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

During audit fieldwork, the Audit staff used available disbursement records to reconcile the accounts⁵ for two RPIA vendors. These vendors provided RPIA with fundraising, telemarketing, phone services and direct mail. The debt balances owed were outstanding in almost every reporting period throughout the period covered by the audit. As described below, the Audit staff identified debts and obligations totaling \$179,856 that were not disclosed on Schedule D (Debts and Obligations). This figure was adjusted from the Interim Audit Report amount of \$186,515.

⁴ The difference between the Audit-recommended amount (\$334,580) and the Commission-approved amount (\$336,569) is \$1,989. This amount relates to an employee that was paid from both a federal account and a non-federal account in the same month. The Commission approved the finding to include the \$1,989 in the total amount of payroll requiring monthly logs.

⁵ The reconciliation consisted of calculating invoiced and paid amounts for individual reporting periods in the 2009-2010 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 Audit staff reviewed invoiced information and identified debt and obligations to one of these vendors totaling \$166,890 that were previously not reported. This unreported debt represents 93 percent of total reportable debt by RPIA.

In addition to the unreported debt discussed above, RPIA under-reported debt totaling \$12,966⁶ to another vendor.

B. Interim Audit Report & Audit Division Recommendation

The Audit staff presented this matter to RPIA representatives at the exit conference and provided schedules detailing the unreported debts for each reporting period for the audited cycle.

The Interim Audit Report recommended that RPIA provide documentation demonstrating that these expenditures did not require reporting on Schedule D. Absent such documentation, the Interim Audit Report further recommended that RPIA amend its reports to disclose the unreported debts totaling \$166,890 and to correct the under-reported debt totaling \$12,966.

C. Committee Response to the Interim Audit Report

In response to the Interim Audit Report recommendation, RPIA said it had addressed this issue by working with its attorneys, accountants and compliance team. RPIA amended its reports and correctly disclosed the debts and obligations.

D. Draft Final Audit Report

The Draft Final Audit Report acknowledged that RPIA amended its reports and correctly disclosed the debts and obligations.

E. Committee Response to the Draft Final Audit Report

RPIA's response to the Draft Final Audit Report provided 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 RPIA had failed to disclose debts and obligations totaling \$179,856.

The Commission approved the Audit staff's recommendation.

⁶ The total amount reportable to this vendor was \$16,039. RPIA reported only \$3,073 on its 2009 and 2010 disclosure reports. The under-reported amount was calculated as follows: \$16,039 - \$3,073 = \$12,966.

Part V

Additional Issue

Recordkeeping for Employees

Summary

As detailed in Finding 1 above, RPIA did not maintain monthly payroll logs to track the percentage of time each employee spent on federal election activity. For 2009 and 2010, the Audit staff determined that the amount of payroll for which logs were required, was \$476,442. This consisted of \$334,580 reported as allocated between federal and non-federal funds and \$141,862 paid from an exclusively non-federal account during certain months.

In response to the Interim Audit Report recommendation, RPIA stated that it has implemented a plan to keep a monthly log of all work performed by staff for federal election activity.

The Commission did not approve by the required four votes the Audit staff's recommended finding that RPIA failed to keep monthly time logs for the \$141,862 in payroll paid from an exclusively non-federal account during certain months.

Pursuant to Commission Directive 70, this matter is discussed in the "Additional Issue" section.

Legal Standard

The legal standard in Finding 1 is incorporated herein.

Facts and Analysis

A. Facts

During fieldwork, the Audit staff reviewed disbursements made to employees totaling \$476,442⁷, for which RPIA did not provide monthly payroll logs to document the percentage of time the employee spent in connection with federal election activity. Logs are required to document the proper allocation of federal and non-federal funds used to pay these workers. The total of \$476,442 consisted of \$334,580 allocated between federal and non-federal activity, and \$141,862 that was paid from an exclusively non-federal account during certain months.

B. Interim Audit Report & Audit Division Recommendation

The Audit staff discussed the recordkeeping issue with RPIA representatives during audit fieldwork and at the exit conference. While the representatives did not address logs or

⁷ 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, page 1). Payroll amounts are stated net of taxes and fringe benefits.

other documentation to support the payroll recordkeeping requirements, they pointed out that RPIA Counsel had drafted affidavits to document the work performed by RPIA employees. Subsequently, RPIA provided affidavits from two employees who attested to the percentage of time they had spent in connection with federal election activity. These documents, however, do not resolve the recordkeeping finding because RPIA provided the affidavits only after notification of the audit. As such, RPIA did not appear to satisfy the requirement to maintain and provide payroll records during or prior to audit fieldwork.

The Interim Audit Report recommended that RPIA provide evidence that it maintained monthly time logs to document employees' time spent on federal election activity, or, that it had implemented 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, RPIA said that it has implemented a plan to keep a monthly log of all work performed by staff for federal election activity. RPIA further stated that a log is kept and completed by the Executive Director of RPIA and shared with the Treasurer of RPIA. Upon discussion and agreement by these RPIA officials, the log is then saved as both an electronic and paper copy in a secure location. This plan is consistent with Commission guidance with respect to payroll logs.

D. Draft Final Audit Report

The Draft Final Audit Report acknowledged that RPIA 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

RPIA's response to the Draft Final Audit Report provided 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 RPIA failed to maintain logs to document the time employees spent on federal election activity totaling \$476,442.

The Commission did not approve by the required four votes the Audit staff's recommended finding that RPIA failed to keep monthly time logs for the \$141,066⁸ in payroll paid exclusively from the non-federal funds. Some Commissioners voted to approve the Audit Division's recommendation. Others did not, citing to the position of three Commissioners in the Final Audit Report of the Commission on the Georgia

⁸ The difference between the Audit-recommended amount (\$141,862) and the amount discussed in the "Additional Issue" section (\$141,066) is \$796. The reduction of the additional issue amount relates to payroll to an employee that was paid separately from a federal account and a non-federal account in the same month. The Commission approved this amount to be included in Finding 1 as requiring a monthly timesheet.

Federal Elections Committee in support of the proposition that the Commission lacks jurisdiction to impose recordkeeping and documentation requirements on exclusively non-federal activity.

This matter is discussed in this “Additional Issue” section pursuant to Commission Directive 70.