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REPORT OF THE AUDIT DIVISION
ON
**OAKLAND DEMOCRATIC CAMPAIGN
COMMITTEE**

Approved April 2, 1999



FEDERAL ELECTION COMMISSION
999 E STREET, N.W.
WASHINGTON, D.C.

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OAKLAND DEMOCRATIC CAMPAIGN COMMITTEE

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FEDERAL ELECTION COMMISSION
Washington, DC 20463

**FINAL AUDIT REPORT
ON THE
OAKLAND DEMOCRATIC CAMPAIGN COMMITTEE**

EXECUTIVE SUMMARY

The Oakland Democratic Campaign Committee (ODCC) registered with the Federal Election Commission (the Commission) on June 14, 1976 and maintains its headquarters in Berkley, Michigan. The audit was conducted pursuant to 2 U.S.C. Section 438(b), which states that the Commission may conduct audits of any political committee whose reports fail to meet the threshold level of compliance set by the Commission. The findings of the audit were presented to officials of ODCC at an exit conference held subsequent to the completion of fieldwork on August 13, 1998 and later in an interim audit report. ODCC's response to those findings is included in this final audit report. The following is an overview of the findings contained in the final audit report.

JOINT FEDERAL AND NON-FEDERAL ACTIVITY— 11 CFR §§ 106.5(g)(1) 102.5(a)(1)(i), 104.10(b)(4). The audit revealed that ODCC failed to comply with any of the prescribed methods for paying shared federal/non-federal expenses. Consequently, shared federal/non-federal expenses were initially paid by using funds from non-federal accounts. The audit determined that the maximum amount which non-federal accounts overfunded shared federal/non-federal expenses was \$32,513. It also determined that ODCC failed to classify and report \$149,022 in allocable expenses, and did not disclose on Schedule H2 the allocation ratio for fundraising activity. In addition to correcting the above, the interim report requested copies of records not produced during the audit for two non-federal accounts and a written description of procedures to be implemented to comply with the allocation regulations.

In response to the interim report, ODCC materially complied with all the recommendations except that records for one of the non-federal accounts were not provided.



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REPORT OF THE AUDIT DIVISION
ON THE
OAKLAND DEMOCRATIC CAMPAIGN COMMITTEE

I. BACKGROUND

A. AUDIT AUTHORITY

This report is based on an audit of the Oakland Democratic Campaign Committee (ODCC), undertaken by the Audit Division of the Federal Election Commission in accordance with the provisions of the Federal Election Campaign Act of 1971, as amended (the Act). The audit was conducted pursuant to Section 438(b) of Title 2 of the United States Code which states, in part, that the Commission may conduct audits and field investigations of any political committee required to file a report under Section 434 of this title. Prior to conducting any audit under this subsection, the Commission shall 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.

B. AUDIT COVERAGE

The audit covered the period January 1, 1995, through December 31, 1996. ODCC reported a beginning cash balance on January 1, 1995 of \$4,282; total receipts for the audit period of \$98,904; total disbursements for the audit period of \$103,049; and an ending cash balance of \$137 on December 31, 1996.¹

¹ All amounts presented in this report were rounded to the nearest dollar.

C. CAMPAIGN ORGANIZATION

ODCC registered with the Federal Election Commission on June 14, 1976 and maintains its headquarters in Berkley, Michigan. ODCC had three Treasurers during the period covered by the audit: Mr. William G. Wolfram from December 13, 1988 until January 10, 1995; Mr. Sean Drate from January 10, 1995 until February 15, 1996; and Ms. Martha Blom from December 17, 1996 through December 31, 1996². The current Treasurer is Mr. Jerry L. Bixby.

D. AUDIT SCOPE AND PROCEDURES

The audit included testing of the following general categories, except that records for one of ODCC's non-federal bank accounts—Oakland County Democratic Club—were not made available for our review. Although disbursements were acknowledged in ODCC's reports as shared expenses paid from this account, we are not in a position to offer an opinion as to whether other shared expenses or other disbursements subject to the Act were made from this account.

1. The receipt of contributions or loans in excess of the statutory limitations;
2. the receipt of contributions from prohibited sources, such as those from corporations or labor organizations;
3. proper disclosure of contributions from individuals, political committees and other entities, to include the itemization of contributions or other receipts when required, as well as, the completeness and accuracy of the information disclosed;
4. proper disclosure of disbursements including the itemization of disbursements when required, as well as, the completeness and accuracy of the information disclosed;
5. proper disclosure of debts and obligations, to include loans;
6. accuracy of total reported receipts, disbursements and cash balances as compared to committee bank records;
7. adequate recordkeeping for transactions;

² Ms. Blom became the treasurer of record when ODCC filed an amended Statement of Organization on December 17, 1996. However, there was no treasurer between February 16, 1996 and December 16, 1996; FEC reports were signed by various ODCC staff.

8. proper disclosure of the allocation of costs associated with administrative expenses and activities conducted jointly on behalf of federal and non-federal elections and candidates (see Finding II.A. 1., 2., and 3.); and
9. other audit procedures that were deemed necessary in the situation.

Unless specifically discussed below, no material non-compliance was detected. It should be noted that the Commission may pursue any of the matters discussed in this report in an enforcement action.

II. AUDIT FINDINGS AND RECOMMENDATIONS

A. JOINT FEDERAL AND NON-FEDERAL ACTIVITY

Section 106.5(g)(1) of Title 11 of the Code of Federal Regulations states, in part, committees that have established separate federal and non-federal accounts, under 11 CFR 102.5(a)(1)(i) shall pay the expenses of joint federal and non-federal activities as follows: (i) pay the entire amount of an allocable expense from its federal account and transfer funds from its non-federal account to its federal account solely to cover the non-federal share of that allocable expense; or (ii) establish a separate allocation account into which funds from its federal and non-federal accounts shall be deposited solely for the purpose of paying allocable expenses. Once a committee establishes a separate allocation account, all allocable expenses shall be paid from that account for as long as the account is maintained.

Section 104.10(b)(4) states, in part, a political committee that pays allocable expenses in accordance with 11 CFR 106.5(g) shall also report each disbursement from its federal account or separate allocation account in payment for a joint federal and non-federal expense or activity.

BACKGROUND

Our review indicated that for the audit period the Oakland Democratic Party, ODCC's parent organization, maintained eleven bank accounts—one account which it considered federal and ten accounts which it considered non-federal. Our review of the associated documentation made available for these accounts identified shared expenses paid directly from four non-federal accounts. As noted above, party committees engaging in both federal and non-federal activities may either pay the entire amount of an allocable expense from its federal account and transfer funds from its non-federal accounts to its federal account solely to cover the non-federal share of that allocable expense, or establish a separate allocation account into which funds from its federal and non-federal accounts are deposited solely for the purpose of paying the allocable expenses. ODCC did not follow either of the prescribed methods for payment of allocable expenses.

Instead, the vast majority of allocable expenses were defrayed initially using funds from non-federal accounts. As funds became available in ODCC's federal account, transfers would be made to "reimburse" the non-federal accounts for the federal share of allocable expenses. Based on discussions with ODCC officials concerning its handling of shared activity, it appeared a lack of understanding of the Commission's allocation regulations led to ODCC's erroneous approach to its payment of shared expenses in 1995 and 1996.

1. OVERFUNDING OF ALLOCABLE EXPENSES BY NON-FEDERAL ACCOUNTS

Based on our analysis, the Audit staff identified allocable expenses totaling \$ 337,307 paid from four non-federal accounts and its federal account. Of this amount, \$111,599 represented the federal share and \$225,708 represented the non-federal share of these expenses³. Between March 1995 and December 1996 the ODCC's federal account made \$93,741 in payments to either reimburse the non-federal accounts or pay the non-federal share of certain allocable expenses. The Audit staff was able to determine that ODCC owed the non-federal accounts as much as \$32,513 in October of 1995 and as little as \$721 in September of 1996. As of December 31, 1995, the balance owed to the non-federal accounts was \$29,045. As of December 31, 1996, the outstanding balance due the non-federal accounts had been reduced to \$14,762.

In the interim audit report, the Audit staff recommended that ODCC provide evidence that demonstrates the non-federal accounts did not directly defray allocable expenses in excess of their share. Absent such a showing, it was recommended that ODCC make reimbursements to the relevant non-federal accounts totaling \$14,762. It was further recommended that if the funds were not available to make the reimbursements, the amount owed must be continuously reported as a debt on Schedule D until extinguished.

In response to the interim report, the treasurer of ODCC agreed with the Audit staff's conclusion that non-federal accounts overpaid shared expenses totaling \$14,762. He responded, "We have begun showing this as a debt on Schedule D and will do so until extinguished." However, a Schedule D has not been filed to date.

2. DISCLOSURE OF SHARED ACTIVITY

Although shared expenses were paid initially from the non-federal accounts, ODCC did itemize several of these expenses on Schedules H4 (Joint

³ In our analysis, the ballot composition method was used to allocate administrative expenses; for expenses related to joint federal and non-federal fundraising we used the funds received method (see 11 CFR §§106.5(d) & (f)).

Federal/Non-Federal Activity Schedule) which reflected the federal and non-federal share for certain allocable expenses. However, since the totals reported on Schedules H4 were not included in total reported receipts and disbursements, it appears that the transactions itemized were intended to be memo entries⁴.

During 1995, ODCC itemized on Schedules H4 allocable expenses totaling \$145,297; the federal and non-federal shares were reported as \$48,384 and \$96,913, respectively. During 1996, ODCC itemized on Schedules H4 allocable expenses totaling \$48,189; the federal and non-federal shares were reported as \$16,047 and \$32,142, respectively. In addition, the Audit staff identified other allocable expenses paid from non-federal accounts which were not itemized on Schedules H4 — \$120,724 in administrative expenses, \$5,888 in fundraising expenses and \$22,410 in GOTV expenses. Disbursements made directly from a non-federal account in payment of allocable expenses are not permitted under the Commission's allocation regulations, nevertheless, such transactions should be disclosed, albeit in "memo schedule" fashion, to complete the public record.

In the interim report, the Audit Staff recommended that ODCC file memo entries on Schedules H4 to disclose the \$149,022 in unreported administrative, GOTV, and fundraising expenses. It was also recommended that ODCC amend its Schedules H4 reports for July Quarterly 1996 and Pre-General 1996 to itemize net payroll expenses instead of gross payroll expenses. Finally, it was recommended that ODCC file Schedule H2 (Allocation Ratios) to disclose the ratio for the shared fundraising activity.

In response to the interim audit report, ODCC officials filed memo Schedules H4 and Schedule H2 which materially corrected the public record.

3. RECORDKEEPING

ODCC made available for our review bank statements, canceled checks, debit and credit memoranda, disbursement documentation and copies of items deposited for two of the four non-federal accounts engaged in shared federal/non-federal activity, however, such materials for the two other non-federal accounts were not available for our review. Without such material, the Audit staff was unable to determine whether any additional shared expenses were paid by these non-federal accounts. ODCC agreed to obtain and provide these records in response to our request during fieldwork.

The interim audit report recommended ODCC provide the Audit staff with bank statements for the audit period, canceled checks, debit and credit memoranda, disbursement documentation, copies of deposited items and any related records for the

⁴ ODCC disclosed debt owed to the Oakland County Democratic Committee (non-federal account) for the amount reported on its Schedules H4 as the federal share of allocable expenses.

Oakland County Democratic Party Candidate Assistance Fund and the Oakland County Democratic Club.

In response, ODCC provided the Audit staff with bank statements for 1995 and 1996, copies of deposit slips and checks deposited and a copy of the 1995 and 1996 check register for the Oakland County Democratic Party Candidate Assistance Fund. Upon reviewing this account, Audit staff determined that the receipts and disbursements related to non-federal activity. No documentation was provided for the Oakland County Democratic Fund. Based on a memorandum included in the response, ODCC's Treasurer related that records for this account are no longer in ODCC's possession.

Finally, the Audit staff recommended that ODCC detail in writing the changes it will/has implemented to comply with the Commission's allocation regulations.

In response to this recommendation, ODCC submitted a written description of a compliance and accountability policy detailing standard operating procedures to be applied when complying with FEC allocation regulations. If the procedures are followed, it appears ODCC's handling of shared transactions would be in compliance with the allocation regulations 11 CFR §106.5(g).

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FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

April 2, 1999

Mr. Jerry L. Bixby, Treasurer
Oakland Democratic Campaign Committee
3260 Coolidge Highway, Suite #1
Berkley, MI 48072

Dear Mr. Bixby:

Attached please find the Report of the Audit Division on the Oakland Democratic Campaign Committee. The Commission approved the report on April 2, 1999. As noted on page 3, the Commission may pursue the matter discussed in an enforcement action.

The Commission approved Audit Report will be placed on the public record on April 8, 1999. Should you have any questions regarding the public release of this report, please contact the Commission's Press Office at (202) 694-1200.

Any questions you may have related to matters covered during the audit or in the audit report should be directed to Brenda Wheeler or Wanda Thomas at (202) 694-1200, or toll free at (800) 424-9530.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert J. Costa". The signature is stylized and cursive.

Robert J. Costa
Assistant Staff Director
Audit Division

Attachment as stated

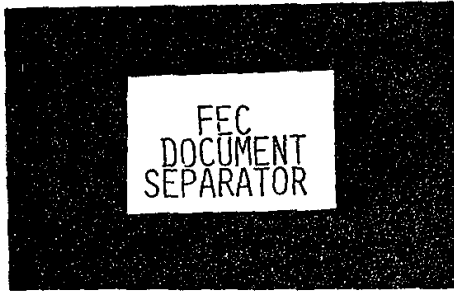
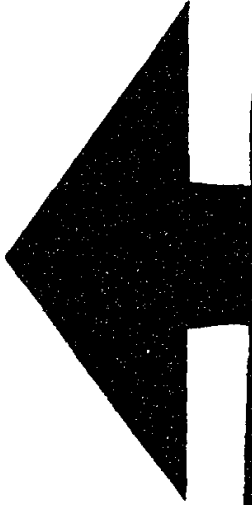
CHRONOLOGY

OAKLAND DEMOCRATIC CAMPAIGN COMMITTEE

Audit Fieldwork	08/03/98 - 08/13/98
Interim Audit Report to the Committee	11/24/98
Response Received to the Interim Audit Report	02/22/99
Final Audit Report Approved	04/02/99

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