




FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

December 28, 2000

MEMORANDUM

TO: RON M. HARRIS
PRESS OFFICER
PRESS OFFICE

FROM: ROBERT J. COSTA 
ASSISTANT STAFF DIRECTOR
AUDIT DIVISION

SUBJECT: PUBLIC ISSUANCE OF THE FINAL AUDIT REPORT ON
THE REPUBLICAN PARTY OF ARKANSAS

Attached please find a copy of the final audit report and related documents on the Republican Party of Arkansas which was approved by the Commission on December 7, 2000.

Informational copies of the report have been received by all parties involved and the report may be released to the public on December 28, 2000.

Attachment as stated

cc: Office of General Counsel
Office of Public Disclosure
Reports Analysis Division
FEC Library

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REPORT OF THE AUDIT DIVISION
ON THE
REPUBLICAN PARTY OF ARKANSAS

Approved December 7, 2000



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

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FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

**REPORT OF THE AUDIT DIVISION
ON THE
REPUBLICAN PARTY OF ARKANSAS
EXECUTIVE SUMMARY**

The Republican Party of Arkansas (RPA) registered with the Federal Election Commission (the Commission) on January 16, 1978, and maintains its headquarters in Little Rock, Arkansas. The Treasurer during the audited period was Harry "Pat" Dodge. The current Treasurer is Lloyd E. Lindsey.

The audit was conducted pursuant to 2 U.S.C. §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 six audit findings summarized below were presented to the RPA at the completion of fieldwork on November 19, 1999 and later in the interim audit report (IAR). RPA's responses to the findings are contained in the audit report.

Although it met the recordkeeping requirements of 2 U.S.C. §432(c) with respect to disbursements, the RPA did not maintain externally generated documentation, such as invoices, bills or receipts for about 50% of its disbursements. The lack of these records limited testing for proper reporting of debts and obligations and the disclosure of required information, such as payee address. Further, with respect to receipts, the RPA failed to maintain adequate records for contributions received from individuals.

RECEIPT OF CONTRIBUTIONS IN EXCESS OF THE LIMITATION - 2 U.S.C. Section 441a(a)(1)(c). - The audit questioned four apparent excessive contributions totaling \$59,500 from four individuals. Two of the contributions were attributed to other persons, however no reattribution documentation was available. In response to the IAR, the RPA demonstrated that one of the contributions (\$50,000) was deposited in error and that the error was corrected timely. Three excessive contributions remain (\$9,500) unresolved. No evidence of any refunds was submitted and the amounts are not being reported as debts on the RPA's disclosure reports.

DOCUMENTATION OF RECEIPTS — 2 U.S.C. §432(c). Approximately 10% of contributions from individuals were inadequately documented. Seven percent of the RPA's contributions were documented only by a bank statement entry (\$46,858). In response to the IAR, the RPA states that a computer crash wiped out all of its donors, and that the donors were reentered in 1998. The RPA provided 46 check copies that account for an additional \$24,750 of contributions, and 28 deposit tickets totaling \$199,288. The RPA has not provided a

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complete listing of its contributors. Further, a requested description of procedural changes implemented was not provided.

ITEMIZATION OF CONTRIBUTIONS FROM INDIVIDUALS, POLITICAL COMMITTEES AND PARTIES — 2 U.S.C. §434(b)(3)(A) & (B). Approximately 16% of RPA's contributions were not itemized as required. Also, nine contributions from political committees totaling \$36,625 were not itemized on Schedules A. In response to the IAR, the RPA filed amended Schedules A correcting some of the errors relative to contributions from individuals, reducing the rate of error to 10%. No corrective action was taken for the contributions from political committees.

OMISSION OF DISCLOSURE INFORMATION FOR RECEIPTS — 11 CFR §104.3(a)(4)(i). Approximately 13% of contributions from individuals on the RPA's disclosure reports were not disclosed correctly. The majority of errors resulted from either no aggregate year-to-date totals or incorrect aggregate year-to-date totals. In response to the IAR, the RPA filed amended Schedules A correcting some of the errors, however, the rate of error is still 11%.

MISSTATEMENT OF FINANCIAL ACTIVITY — 2 U.S.C. §434(b)(1), (2) and (4). Reported receipts, disbursements and cash on hand for calendar years 1997 and 1998 were misstated. In response to the IAR, the RPA states that it filed amended reports to correct the errors. However, no amended reports were provided with the response and none have been located on the public record. Attempts to reach the RPA to inquire about the amended reports have been unsuccessful.

USE OF FUNDS FROM NON-FEDERAL ACCOUNTS 11 CFR §§102.5(a)(1)(i), 106.5(g)(1)(i) & (ii) (A) and 104.10(b)(4).

1. Advertising and Polling Expenditures Funded From a Non-Federal Account.

A review of disbursements made from RPA's non-federal checking account identified \$754,417 in payments for shared advertising and polling which should have been paid from the federal account and reimbursed in part by the non-federal account. The federal share of these expenditures is \$165,972. The expenditures should have been reported on Schedules H-4, Joint Federal/Non-Federal Activity Schedule.

2. Shared Administrative Expenses Funded from a Non-Federal Account

The review of disbursements made from the RPA's non-federal account identified \$8,689 in payments for shared administrative expenses. These expenses should have been paid from the federal account and reimbursed in part by the non-federal. The federal share of these expenditures was \$1,912. They should have been reported on Schedules H-4, Joint Federal/Non-Federal Activity Schedule.

3. Expenditures in Connection with a Fundraising Event for a Federal Candidate

The review of the RPA's allocated expenditures identified four totaling \$16,351, that related to a May 2, 1997 salute to U.S. Senator Tim Hutchinson fundraising event. These expenditures were allocated between the federal and nonfederal accounts using the administrative expense ratio (25% federal and 75% non-federal). The RPA provide no

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documentation for the amount collected from the event or for amounts deposited in the federal and non-federal accounts. Absent such documentation, the expenses were considered 100% federal. Therefore, the non-federal account has overfunded the federal account by \$12,263.

In response to the IAR recommendations for items one and two, the RPA states that it filed amended reports to correct the errors. However, no amended reports were provided with the response and none have been located on the public record. Attempts to reach the RPA to inquire about the amended reports have been unsuccessful. With respect to item three, the RPA transferred \$12,263 from its non-federal account to its federal account. By this transfer, the RPA has doubled the amount of the non-federal account's over funding. A transfer in the amount of \$24,526 should be made to the non-federal account.

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FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20543

**REPORT OF THE AUDIT DIVISION
ON THE
REPUBLICAN PARTY OF ARKANSAS**

I. BACKGROUND

A. AUDIT AUTHORITY

This report is based on an audit of the Republican Party of Arkansas (RPA), undertaken by the Audit Division of the Federal Election Commission (the 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 from January 1, 1997 through December 31, 1998. During this period, the RPA reported a beginning cash balance of \$136,201; total receipts of \$1,565,357; total disbursements of \$1,521,246; and a closing cash balance of \$36,955¹.

C. COMMITTEE ORGANIZATION

The RPA registered with the Commission on January 16, 1978 and maintains its headquarters in Little Rock, Arkansas. The Treasurer during the period covered by the audit was Harry "Pat" Dodge. The current Treasurer is Lloyd E. Lindsey.

¹ All figures in this report have been rounded to the nearest dollar. The amounts do not foot due to the RPA not carrying forward the same cash on hand balances for several reporting periods.

To manage its federal financial activity, the RPA used four bank accounts. From these accounts the RPA made approximately 1,400 disbursements. Receipts were composed of contributions from individuals (\$600,900); contributions from other political committees and transfers from affiliated and other party committees (\$72,900); loans received (\$93,300); loan repayments received (\$8,000); interest income of \$500 and transfers from its non-federal accounts totaling \$792,800.²

The RPA also maintained two non-federal accounts from which it expended \$1,956,900, and a building fund account from which it expended \$138,300³.

D. AUDIT SCOPE AND PROCEDURES

The audit included testing of the following general categories:

1. The receipt of contributions or loans in excess of the statutory limitations (See Finding II.A.);
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 when required, as well as, the completeness and accuracy of the information disclosed (See Findings II.C. and II.D.);
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;
6. the accuracy of total reported receipts, disbursements and cash balances as compared to bank records (See Finding II.E.);
7. adequate recordkeeping for committee transactions (See Finding II.B.);
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.F.); and

² These categories of receipts total approximately \$1,568,400 or about \$3,000 more than reported receipts (\$1,565,356).

³ This figures are not audited.

9. other audit procedures that were deemed necessary in the situation.

Unless specifically discussed below, no material non-compliance with statutory or regulatory requirements was detected. Although having met the recordkeeping requirements of 2 U.S.C. §432(c) with respect to disbursements, the RPA did not maintain externally generated documentation, such as invoices, bills or receipts for about 50% of its disbursements, based on a sample review. The lack of these third party records limited the testing for the proper reporting of debts and obligations and the disclosure of the required information, such as payee address, for disbursements. Further, with respect to receipts, the RPA failed to maintain adequate records for contributions received from individuals (See Finding II.B.). It should be noted that the Commission may pursue further any of the matters discussed in this report in an enforcement action.

II. AUDIT FINDINGS AND RECOMMENDATIONS

A. RECEIPT OF CONTRIBUTIONS IN EXCESS OF THE LIMITATION

Section 441a(a)(1)(C) of Title 2 of the United States Code states that no person shall make contributions to any other political committee in any calendar year which, in the aggregate, exceed \$5,000.

Section 110.1(k) of Title 11 of the Code of Federal Regulations states, in part, that any contribution made by more than one person, except for a contribution made by a partnership, shall include the signature of each contributor on the check, money order, or other negotiable instrument or in a separate writing and if a contribution made by more than one person does not indicate the amount to be attributed to each contributor, the contribution shall be attributed equally to each contributor.

If a contribution to a political committee, either on its face or when aggregated with other contributions from the same contributor, exceeds the limitations on contributions set forth in 11 CFR §110.1(b), (c) or (d), as appropriate, the treasurer of the recipient political committee may ask the contributor whether the contribution was intended to be a joint contribution by more than one person. A contribution shall be considered to be reattributed to another contributor if the treasurer of the recipient political committee asks the contributor whether the contribution is intended to be a joint contribution by more than one person, and informs the contributor that he or she may request the return of the excessive portion of the contribution if it is not intended to be a joint contribution; and, within sixty days from the date of the treasurer's receipt of the contribution, the contributors provide the treasurer with a written reattribution of the contribution, which is signed by each contributor, and which indicates the amount to be attributed to each contributor if equal attribution is not intended.

Section 110.1(l)(5) of Title 11 of the Code of Federal Regulations states, in part, that if a political committee does not retain the written records concerning reattribution, the reattribution shall not be effective, and the original attribution shall control.

Section 110.9(a) of Title 11 of the Code of Federal Regulations states, in part, that no political committee shall accept any contribution or make any expenditure in violation of the provisions of part 110.

Section 103.3(b)(4) of Title 11 of the Code of Federal Regulations states, in relevant part, that any contribution which appears to be illegal under 11 CFR 103.3(b)(3), and which is deposited into a campaign depository shall not be used for any disbursements by the political committee until the contribution has been determined to be legal. The political committee must either establish a separate account in a campaign depository for such contributions or maintain sufficient funds to make all such refunds.

A review of RPA's receipt records identified four contributions from four individuals which appeared to exceed the contribution limitations by \$59,500. In 1997, one individual made a contribution in the amount of \$10,000, another made three contributions, totaling \$7,500. These contributions exceed the \$5,000 contribution limitation by \$7,500. In 1998, one individual made a contribution in the amount of \$7,000, which exceeded the limitation by \$2,000. Two contributions from another individual were deposited into the Federal account in the amounts of \$5,000 and \$50,000. Those amounts exceeded the limitation by \$50,000. Committee officials explained that the \$50,000 contribution from this individual was intended for the non-federal account, but had been inadvertently deposited into the federal account. The \$50,000 check is made payable to the "Arkansas Republican Party" with the word "Donation" on the memo line. The \$5,000 check was made payable to "The Republican Party of Arkansas" with the word "Contribution" on the memo line. Neither the checks nor any associated documentation contain any designation for the federal or non-federal accounts. Both contributions were reported on line 11c, "Other Political Committees", with the individual listed as the contributor. Also, two of the contributions noted above were attributed to other persons on the RPA's disclosure reports. However, there was no reattribution documentation available for these contributions.

At the Exit Conference, the Audit staff provided the RPA representatives a schedule of the identified excessive contributions. In a written response to the Exit Conference, the RPA re-states that the \$50,000 contribution should have been deposited into its non-federal account, and contends that there is a reattribution letter on file for one of the other excessive contributions, but did not provide a copy.

In the Interim Audit Report, the Audit staff recommended that the RPA provide evidence demonstrating that the contributions in question are not excessive. Absent such evidence, the Audit staff recommended that the RPA refund \$59,500 and provide evidence of such refunds (copies of the front and back of the negotiated refund checks). If funds were not available to make the necessary refunds, the Interim Audit Report advised that those contributions requiring refunds be disclosed as debts on Schedule D (Debts and Obligations) until such time that funds become available to make the refunds.

In its response to the Interim Audit Report, the RPA addressed three of the four excessive contributions. The first was the \$50,000 contribution. The RPA states that after further investigation it has determined that the \$50,000 contribution was deposited into the incorrect account. The response goes on to explain that after much research, the RPA learned that the error was discovered the very next day by its finance person who immediately withdrew the money from the Federal account and deposited it into the state account. Finally, the RPA states that the transaction was not reported by the accounting firm that prepared its reports. A copy of the check that was used to make the transfer and the deposit ticket for the non-federal account was provided. The Audit staff was aware of the \$50,000 transfer at the time of the fieldwork. At that time RPA officials speculated that the transfer was a reimbursement for an over payment from the non-federal account for shared expenses. The \$50,000 was reported as a negative entry on Schedule H3 (Transfers From Non-Federal Accounts) for administrative/voter drive expenses. There was no indication on the Schedule H-3, the check copy, or the deposit ticket, that this transfer related to the excessive contribution in question. The contribution was deposited into RPA's federal account on October 21, 1998 and the \$50,000 was transferred to the non-federal account on October 27, 1998.

In light of RPA's explanation, additional research was undertaken in an attempt to either support or refute the representations made by the RPA. First, there is no evidence that the RPA had been over reimbursed for shared expenses, either at the time of the transfer or for the election cycle, as suggested during the audit fieldwork and by the negative entry on the RPA's disclosure reports. For the election cycle, the non-federal account paid less than its portion of shared expenses. Second, a review of RPA's bank accounts for the period during which the \$50,000 remained in RPA's federal account (October 21, 1998 - October 27, 1998) indicates that RPA did not require the \$50,000 to meet its operating expenses. Finally, as noted above the same contributor made a previous contribution in the amount of \$5,000. The amount of the earlier contribution suggests that the contributor was aware of the limitation. That contribution was made only one week prior to the \$50,000 contribution.

Given the above, the Audit staff concludes that the \$50,000 was deposited in error and that the error was timely corrected.

The RPA contends that no part of the \$7,500 contributed by another person is excessive because one contribution in the amount of \$5,000 was deposited into the non-federal account. A check copy and deposit ticket were provided. The Audit staff notes that an October 14, 1997 deposit ticket suggests that the RPA's non-federal account did receive a \$5,000 check from a contributor with the same last name as the contributor noted here. However, the contribution in question was dated April 2, 1997 and was stamped as "entered" on April 7, 1997. No explanation for the 6 month time difference is provided. The Audit staff concluded that it is likely that the October 14, 1997 deposit ticket relates to another contribution.

The RPA also states that a \$7,000 contribution was actually a joint contribution from two individuals. The RPA states that a copy of the check with both signatures was enclosed. The Audit staff did not locate the check copy in the RPA's response. However, a copy of the check was obtained during fieldwork. The check has only one signature, and is drawn on an account that names only one account holder.

The fourth excessive contribution (\$5,000) was not addressed by the RPA in its response.

After reviewing RPA's response, the Audit staff concludes that three excessive contributions remain in the amount of \$9,500. No evidence of any refunds was submitted and the amounts are not being reported as debts on the RPA's disclosure reports.

B. DOCUMENTATION OF RECEIPTS

Section 432(c) of Title 2 of the United States Code requires, in relevant part, that the treasurer of a political committee keep an account of (1) all contributions received by or on behalf of such political committee; (2) the name and address of any person who makes any contribution in excess of \$50, together with the date and amount of such contribution; and, (3) the identification of any person who makes a contribution or contributions aggregating more than \$200 during a calendar year, together with the date and amount of any such contribution.

Section 432(d) of Title 2 of the United States Code provides that the treasurer shall preserve all records required to be kept by this section and copies of all reports required to be filed by this subchapter for 3 years after the report is filed.

The Audit staff reviewed contributions received from individuals and determined that for a material number, the recordkeeping requirements were not satisfied. It was determined that the RPA's contributions deposited into its federal accounts during the audit period were \$673,775. The RPA's records consisted of a contributor database that was approximately 65% complete, copies of deposit tickets that listed the deposited items by last name and amount, and copies of contribution checks that were not associated with deposit tickets. Using the RPA's deposit slips, the Audit staff data entered over 1,000 contributions not previously included in the contribution database which brought it to approximately 80% (\$615,625 / \$673,775) of the total contributions deposited into the federal accounts⁴. The remainder, \$142,430, consists of small contributions listed on the deposit slips that were not entered by the Audit staff (\$72,961), deposits and credit memoranda that were listed on the RPA's bank statements but were

⁴ The deposit slips were used to supplement the contribution database instead of the copies of the contributor checks since the RPA mixed copies of its non-federal contributor checks with its copies of federal contributor checks. The federal and non-federal contribution checks could not be distinguished on their face.

otherwise undocumented (\$70,960)⁵, and an unexplained difference of \$1,491. The recordkeeping errors relate both to the contributions that the Audit staff recorded on the contribution database from the deposit slips and those that are supported only by an entry on a bank statement.⁶ For many of the contributions entered by the Audit staff, copies of the contributor checks were not available and no record other than the individuals' last name on the deposit slips was available.

The contributions that were in the database, as revised by the Audit staff, were tested on a sample basis and approximately 10% of the sample items were inadequately documented. The receipts documented only by a bank statement entry (\$46,858) account for 7% of the contributions received by the RPA.

At the exit conference, RPA's representatives were advised of this matter. The representatives offered no response at that time and the RPA's written response to the exit conference did not address this issue.

In the Interim Audit Report, the Audit staff recommended that the RPA obtain any contributor information not currently available in its records and provide the Audit staff a complete listing of its contributors. The Audit staff further recommended that the RPA provide a narrative description of changes implemented with respect to receipt processing to avoid future problems.

In its response to the Interim Audit Report, the RPA states that a computer crash wiped out all of its donors, and that the donors were reentered in 1998. The RPA provided 46 check copies, totaling \$24,750, and 28 deposit tickets, totaling \$199,288. The RPA has not provided the Audit staff with a complete listing of its contributors, as was recommended. Further, a narrative description of changes implemented was not provided.

**C. ITEMIZATION OF CONTRIBUTIONS FROM INDIVIDUALS,
POLITICAL COMMITTEES AND PARTIES**

Section 434(b)(3)(A) of Title 2 of the United States Code requires, in part, a political committee to report the identification of each person who makes a contribution to the committee in an aggregate amount or value in excess of \$200 per calendar year, together with the date and amount of any such contribution.

Section 434(b)(3)(B) of Title 2 of the United States Code states that each report under this section shall disclose the identification of each political and party

⁵ Subsequent to the conclusion of field work, the RPA provided additional documentation which reduced the amount of the undocumented receipts from \$70,960 to \$46,858. The additional documentation was not entered on the contributor database.

⁶ The inconsistencies with RPA's receipts database also led to problems with the itemization and disclosure of receipts (See Findings II.C. and II.D.).

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committee which makes a contribution to the reporting committee during the reporting period, together with the date and amount of any such contribution.

The Audit staff conducted a sample review of contributions from individuals and determined that the RPA did not itemize on Schedules A (Itemized Receipts) approximately 16% of the contributions that required itemization. It appears that the majority of these errors (81%) were among contributions not originally recorded by the RPA on its contribution database. In addition, as discussed above, a substantial number of the RPA's contributions are not documented in its records. Therefore it is likely that additional contributions that should have been itemized are not reflected in the RPA's disclosure reports.

The Audit staff also reviewed all contributions which the RPA received from political committees. Not itemized on Schedules A as required, were nine contributions, totaling \$36,625. Four of the nine contributions were not originally recorded on the RPA's contribution database.

At the exit conference, the Audit staff advised RPA representatives of the above. The RPA's representatives could offer no explanation for the failure to itemize these contributions and the RPA's written response to the exit conference does not address this issue.

In the Interim Audit Report, the Audit staff recommended that the RPA file amended Schedules A (Itemized Receipts), by reporting period, disclosing the contributions not previously itemized. These amended reports should include contributions that are not currently reflected in the RPA's contribution records but are identified in response to recommendation #2.

In its response to the Interim Audit Report, the RPA filed amended Schedules A which corrected some of the itemization errors mentioned above. After considering the amended schedules, the rate of error in the sample is 10%. No amended schedules were filed for the contributions from political committees.

D. OMISSION OF DISCLOSURE INFORMATION FOR RECEIPTS

Section 104.3(a)(4)(i) of Title 11 of the Code of Federal Regulations states, in relevant part, that the identification of each contributor and the aggregate year-to-date total for such contributor shall be reported for each person who makes a contribution to the reporting committee during the reporting period, whose contribution or contributions aggregate in excess of \$200 per calendar year, together with the date of receipt and amount of any such contributions.

Section 100.12 of Title 11 of the Code of Federal Regulations defines *identification*, in the case of an individual, as his or her full name, including: First name,

middle name or initial, if available, and last name; mailing address; occupation; and the name of his or her employer.

A sample review of contributions from individuals itemized on the RPA's disclosure reports revealed that approximately 13% were not disclosed correctly. The majority of errors resulted from either no aggregate year-to-date totals or incorrect aggregate year-to-date totals. Other errors included the disclosure of incorrect contributor names, incorrect contribution amounts, an incorrect date and the failure to disclose a contributor address. These errors appear to be related to the database problem mentioned in Findings II.B. and II.C..

This matter was addressed by the Audit staff at the Exit Conference. The RPA's representatives made no comment and the RPA's written response to the exit conference does not address this issue.

In the Interim Audit Report, the Audit staff recommended that the RPA file amended Schedules A (Itemized Receipts) to correct its disclosure of contributions from individuals.

In its response to the Interim Audit Report, the RPA filed amended Schedules A which corrected some of the disclosure errors mentioned above. After reviewing the amended schedules, the rate of error in the sample is 11%.

E. MISSTATEMENT OF FINANCIAL ACTIVITY

Sections 434(b)(1), (2) and (4) of Title 2 of the United States Code state, in relevant part, that each report shall disclose the amount of cash on hand at the beginning of each reporting period, the total amount of all receipts, and the total amount of all disbursements for the reporting period and calendar year.

The Audit staff's reconciliation of the RPA's reported financial activity to its bank activity, for the period January 1, 1997, through December 31, 1998, disclosed that the RPA had misstated its receipts, disbursements and cash on hand balances. The RPA did not provide workpapers detailing how the dollar amounts shown on its disclosure reports were calculated.

1997

The RPA's cash balance on January 1, 1997 was \$74,937. Reported cash was \$136,201, an overstatement \$61,264. In an apparent attempt to correct its beginning cash on hand balance when it filed its 1997 Year End disclosure report, the RPA reduced its beginning cash on hand by \$63,991. No explanation of this discrepancy was provided.

The RPA reported total receipts of \$571,265, an overstatement of \$37,887. The correct receipts amount for 1997 was \$533,378. The overstatement resulted from the

RPA's: overstatement of unitemized contributions from individuals (\$13,761) on both the 1997 Mid Year and 1997 Year End disclosure reports; the reporting of contributions deposited into the non-federal account totaling \$29,500; the failure to report transfers from its non-federal account totaling \$2,450; the failure to report a contribution from a party committee in the amount of \$875; and an unexplained difference which overstated receipts by \$2,048.

Total reported disbursements were \$560,236. The RPA should have reported total disbursements of \$606,192. Therefore, disbursements were understated by \$45,956. *The understatement stemmed mainly from the RPA's: failure to report disbursements totaling \$56,040; the reporting of disbursements totaling \$4,783 which were not supported by checks or debit memos from the RPA's bank accounts; the reporting of disbursements with negative amounts (\$12,630)⁷; the reporting of disbursements with incorrect amounts (\$15,682); and an unexplained understatement of \$2,249.*

The RPA reported an ending cash on hand balance of \$81,949 on December 31, 1997, an overstatement of \$79,827. The correct cash balance was determined to be \$2,122. The overstatement resulted from the misstatements detailed above and from discrepancies in reported cash balances between the 1997 Mid Year and 1997 Year End disclosure reports.

1998

The RPA reported total receipts of \$994,091, an understatement of \$41,368. The correct amount was \$1,035,459. The net understatement of receipts resulted from the RPA's: understating of transfers from its non-federal account for joint activity by \$50,301; the failure to report contributions from party committees of \$34,750; the reporting of contributions from political party committees in the amount of \$47,075 which were deposited into its non-federal account; and an unexplained understatement of \$3,392.

Total reported disbursements were \$961,020. The RPA should have reported total disbursements of \$1,000,020; an understatement of \$39,000. The understatement stemmed mainly from the RPA's: failure to report disbursements of \$60,134; reporting of disbursements totaling \$17,856 which were not supported by checks or debit memos on RPA's bank records; and, an unexplained understatement of \$3,278.

The RPA reported an ending cash on hand balance of \$36,955 on December 31, 1998, an understatement of \$606. The correct cash balance was determined to be \$37,561.

⁷ These negative entries were not associated with any previously reported disbursements. The RPA representatives were asked to explain these entries, but no explanation was provided.

At the Exit Conference, RPA representatives were provided with documentation explaining the misstatements. The RPA representatives agreed to correct the misstatements. The RPA's written response to the exit conference did not address this issue.

In the Interim Audit Report, the Audit staff recommended that the RPA file comprehensive amended reports for calendar years 1997 and 1998, which included corrected Summary and Detailed Summary Pages for each year to accurately disclose its reported activity, as well as amended Schedules A and B, by report period, for the misstatements noted above.

In its response to the Interim Audit Report, the RPA states that it has filed amended reports for 1997 and 1998 to correct these errors. However, the amended reports were not provided as part of this response and have not been located on the public record to date. Further, attempts to reach the RPA to inquire about the amended reports have been unsuccessful. The RPA has not complied with the Audit staff's recommendation on this matter.

F. USE OF FUNDS FROM NON-FEDERAL ACCOUNTS

Section 102.5(a)(1)(i) of Title 11 of the Code of Federal Regulations states, in relevant part, that each organization, including a party committee, which finances political activity in connection with both federal and non-federal elections shall establish a separate federal account in a depository in accordance with 11 CFR part 103. Such account shall be treated as a separate federal political committee which shall comply with the requirements of the Act. Only funds subject to the prohibitions and limitations of the Act shall be deposited in such separate federal account. All disbursements, contributions, expenditures and transfers by the committee in connection with any federal election shall be made from its federal account. No transfers may be made to such federal account from any other account(s) maintained by such organization for the purpose of financing activity in connection with non-federal elections, except as provided in 11 CFR §106.5(g).

Section 106.5(g)(1)(i) and (ii) (A) of Title 11 of the Code of Federal Regulations states, in part, that committees that have established separate federal and non-federal accounts under 11 CFR §§102.5(a)(1)(i) or (b)(1)(i) shall either: 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 establish a separate allocation account into which funds from its federal and nonfederal accounts shall be deposited solely for the purpose of paying the allocable expenses of joint federal and non-federal activities.

Section 104.10(b)(4) of Title 11 of the Code of Federal Regulations states, in part, that a political committee that pays allocable expenses in accordance with 11 CFR

§106.5(g) or §106.6(e) 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.

Section 106.5(a)(2)(iv) of Title 11 of the Code of Federal Regulations states that allocable costs include generic voter drives including voter identification, voter registration, or any other activities that urge the general public to register, vote or support candidates of a particular party or associated with a particular issue, without mentioning a specific candidate.

Section 106.5(d)(ii) of Title 11 of the Code of Federal Regulations states, in relevant part, that all state and local party committees, except for states that do not hold federal and non-federal elections in the same year, shall allocate their administrative expenses and costs of generic voter drives according to the ballot composition method. Under this method, expenses shall be allocated based on the ratio of federal offices expected on the ballot to total federal and non-federal offices expected on the ballot in the next general election to be held in the committee's state or geographic area.

Section 106.5(a)(2)(ii) of Title 11 of the Code of Federal Regulations states, in part, that party committees that make disbursements in connection with federal and non-federal elections shall allocate the direct costs of a fundraising program or event including disbursements for solicitation of funds and for planning and administration of actual fundraising events, where federal and non-federal funds are collected by one committee through such program or event.

The Audit staff's analysis of non-federal activity indicated that the non-federal account could have transferred an additional \$287,210 to the federal allocation account for its share of joint activity. This amount exceeds the federal portion of the shared expenditures paid from the non-federal account discussed in sections 1, 2 and 3 of this finding. Therefore, no transfer of funds is recommended. The additional amount that could have been transferred from the non-federal account was the result of the RPA using a ballot composition ratio of 75%, that yielded a non-federal share of joint activity of \$990,411. The Audit staff determined that the RPA should have used a 78% ballot composition ratio which would have increased the non-federal share of joint activity by \$39,616. In addition, the RPA made transfers from its non-federal account to its federal allocation account of only \$742,817, which was \$287,210 (\$990,411 + \$39,616 - \$742,817) less than the amount that it could have transferred.

1. Advertising and Polling Expenditures Funded from a Non-Federal Account

A review of disbursements made from RPA's non-federal checking account identified \$754,417 in payments made directly to vendors for shared advertising and polling expenses. The expenditures included production, mailing and marketing costs for broadcast and print ads for the 1998 Arkansas republican candidates for U.S.

Senate and House; production, mailing and marketing costs for broadcast and print ads against the 1998 Arkansas democratic candidates for U.S. Senate and House; and polling costs. In some cases, the same payee received payment from the RPA's federal account for the same type of expenses. These expenses should have been paid from the federal account and reimbursed in part by the non-federal account.

The print and broadcast advertisements should have been allocated using the ballot composition ratio, pursuant to 11 CFR §106.5(d)(ii). The Audit staff determined that the federal portion was 22%⁸. Although the ads made references to federal officeholders who were also federal candidates, there was no express advocacy of a federal candidate's election or defeat, and the communications did not contain any call for action other than urging the public to contact the candidate and voice support or opposition.

Overall, the federal share of these expenditures was \$165,972. Further, they should have been reported on Schedules H-4, Joint Federal/Non-Federal Activity Schedule.

At the exit conference, the RPA representatives were advised of this matter and were provided copies of workpapers. The RPA representatives indicated they understood but offered no further comments.

In the Interim Audit Report, the Audit staff recommended that the RPA demonstrate that these are not shared advertising and polling expenditures made from a non-federal account. Absent such a demonstration, it was recommended that the RPA file appropriate memo Schedules H-4 by reporting period to disclose these expenditures.

In its response to the Interim Audit Report, the RPA states that it has filed amended reports for 1997 and 1998 to correct these errors. However, the amended reports were not provided as part of this response and have not been located on the public record to date. Further, attempts to reach the RPA to inquire about the amended reports have been unsuccessful. The RPA has not complied with the Audit staff's recommendation on this matter.

2. Shared Administrative Expenses Funded from a Non-Federal Account

The review of disbursements made from the RPA's non-federal checking account identified \$8,689 in payments made directly to vendors for shared administrative expenses. The payments were for expenses relating to a state committee meeting, accounting, yard work, airfare reimbursement, along with a payment to the Republican National Committee. These administrative expenses should have been paid from the federal account and reimbursed by the non-federal for its share. The federal share of

⁸ It should be noted that, on its Schedules H-1, the RPA computed its federal share to be 25% in its calculation of the ballot composition ratio.

these expenditures was \$1,912 (22% x \$8,689). Further, they should have been reported on Schedules H-4, Joint Federal/Non-Federal Activity Schedule.

This matter was discussed with the RPA representatives at the exit conference and a schedule detailing the above noted expenditures was provided. In a written response to the matters addressed at the exit conference, the RPA representatives agreed that some of these expenditures were written from the wrong account.

In the Interim Audit Report, the Audit staff recommended that the RPA demonstrate that these are not shared administrative expenditures made from a non-federal account. Absent such a demonstration, it was recommended that the RPA file appropriate memo Schedules H-4 by reporting period to disclose these expenditures.

In its response to the Interim Audit Report, the RPA states that it has filed amended reports for 1997 and 1998 to correct these errors. However, the amended reports were not provided as part of this response and have not been located on the public record to date. Further, attempts to reach the RPA to inquire about the amended reports have been unsuccessful. The RPA has not complied with the Audit staff's recommendation on this matter.

3. Expenditures in Connection with a Fundraising Event for a Federal Candidate

As a result of our review of disbursements from the RPA's federal and non-federal accounts; the Audit staff identified four expenditures totaling \$16,351 which were related to the May 2, 1997 salute to U.S. Senator Tim Hutchinson fundraising event. The RPA representatives did not provide documentation concerning the amount collected from the event or the amounts deposited in the federal and non-federal accounts. Absent such documentation, the fundraising expenses were considered to be 100% federal expenditures.

The RPA allocated the expenditures using the administrative expense ratio, \$4,088 (25%) federal and \$12,263 (75%) non-federal. Therefore, the non-federal account has overfunded the federal account by \$12,263.

The RPA representatives were advised of this matter at the exit conference and provided a schedule detailing these expenditures. In a written response to the exit conference, the RPA representatives agreed that the expenditures noted above related to the fundraising event, but provided no information that would allow an allocation of the expenses.

In the Interim Audit Report, the Audit staff recommended that the RPA submit documentation relating to the amount of federal and non-federal funds received from this event. It was further recommended that the RPA file appropriate memo

Schedules H-4 to correct the disclosure of these expenditures, along with a Schedule H-2 (Allocation Ratios) to list the event on its reports.

In its response to the Interim Audit Report, the RPA transferred \$12,263 from its non-federal account to its federal account. A copy of the check (front only) and the deposit ticket were provided. By erroneously transferring this money, the RPA has increased the amount that the non-federal account has overfunded the federal account by \$12,263. The \$12,263 transferred should be returned to the non-federal account. The RPA has not complied with the Audit staff's recommendation on this matter.

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FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

December 19, 2000


Mr. Lloyd E. Lindsey, Treasurer
Republican Party of Arkansas
1201 West 6th Street
Little Rock, AR 72201

Dear Mr. Lindsey:

Attached please find the Final Audit Report on the Republican Party of Arkansas. The Commission approved the report on December 7, 2000.

The Commission approved Final Audit Report will be placed on the public record on December 26, 2000. Should you have any questions regarding the public release of the report, please contact the Commission's Press Office at (202) 694-1220. Any questions you have related to matters covered during the audit or in the report should be directed to Mr. Bill Antosz or Mr. Alex Boniewicz of the Audit Division at (202) 694-1200 or toll free at (800) 424-9530.

Sincerely,



Robert J. Costa
Assistant Staff Director
Audit Division

Attachment as Stated

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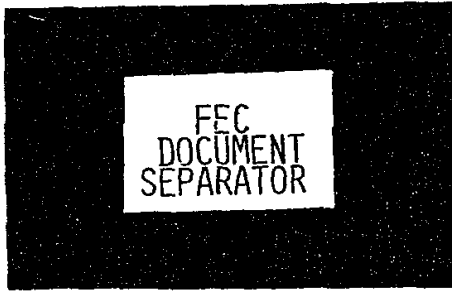
CHRONOLOGY

REPUBLICAN PARTY OF ARKANSAS

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| Audit Fieldwork | November 1 - November 19, 1999 |
| Interim Audit Report to the Committee | July 25, 2000 |
| Response Received to the Interim Audit Report | September 13, 2000 |
| Final Audit Report Approved | December 7, 2000 |

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SEPARATOR

