



FEDERAL ELECTION COMMISSION  
Washington, DC 20463

April 22, 2003

MEMORANDUM

TO: RON M. HARRIS  
PRESS OFFICER  
PRESS OFFICE

FROM: JOSEPH F. STOLTZ *JFS*  
ASSISTANT STAFF DIRECTOR  
AUDIT DIVISION

SUBJECT: PUBLIC ISSUANCE OF THE AUDIT REPORT ON THE  
DEMOCRATIC PARTY OF WISCONSIN FEDERAL ACCOUNT

Attached please find a copy of the audit report and related documents on the Democratic Party of Wisconsin Federal Account, which was approved by the Commission on April 10, 2003.

The report may be released to the public on April 22, 2003.

Attachment as stated

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



# Report of the Audit Division on the Democratic Party of Wisconsin Federal Account

January 1, 1999 – December 31, 2000

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## Why the Audit Was Done

Federal law permits the Commission to conduct an audit and field investigation 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 Democratic Party of Wisconsin Federal Account is a state party committee headquartered in Madison, WI. For more information, see chart on the Committee Organization, p.2.

## Financial Activity (p. 2)

- Receipts
  - Transfers from Non-Federal Accounts \$ 3,644,123
  - Transfers From Other Party Committees 2,857,132
  - Contributions from Political Committees 627,890
  - Contributions from Individuals 622,723
  - All Other Receipts 180,779
  - **Total Receipts** \$ 7,932,647
- Disbursements
  - Operating Expenditures \$ 7,874,909
  - All Other Disbursements 21,975
  - **Total Disbursements** \$ 7,896,884

## Findings and Recommendations (p.3)

- Apparent Allocable Expenses Paid from a Non-Federal Account (Finding 1)
- Recordkeeping for Disbursements (Finding 2)
- Disclosure of Receipts and Disbursements (Finding 3)

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<sup>1</sup> 2 U.S.C. §438(b).

# **Report of the Audit Division on the Democratic Party of Wisconsin Federal Account**

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January 1, 1999 – December 31, 2000



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# **Part I**

## **Background**

### **Authority for Audit**

This report is based on an audit of the Democratic Party of Wisconsin Federal Account (DPW), 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 receipt of excessive contributions and loans.
2. The receipt of contributions from prohibited sources.
3. Disclosure of contributions and other receipts.
4. Disclosure of disbursements, debts, and obligations.
5. Disclosure of expenses allocated between federal and non-federal accounts.
6. Consistency between reported figures and bank records.
7. The completeness of records.
8. Other committee operations necessary to the review.

### **Changes to the Law**

On March 27, 2002, President Bush signed into law the Bipartisan Campaign Reform Act of 2002 (BCRA). The BCRA contains many substantial and technical changes to the federal campaign finance law. Most of the changes became effective November 6, 2002. The period covered by this audit pre-dates these changes. Therefore, the statutory and regulatory requirements cited in this report are those that were in effect during the audit period.

### **Limitations**

In maintaining its disbursement records, the DPW did not satisfy the minimum recordkeeping requirements of 11 CFR §102.9 for some of its disbursements (See Finding 2). In addition, the Audit staff's testing of disbursements was limited by the lack of external documentation, such as invoices, bills or receipts, for about 50% of the disbursements selected for review on a sample basis. This lack of records limited the testing for the proper reporting of debts and obligations as well as the disclosure of the required information for disbursements, such as name of payee, address and purpose.

## Part II

### Overview of Committee

#### Committee Organization

<b>Important Dates</b>	<b>Democratic Party of Wisconsin Federal Account</b>
• Date of Registration	June 28, 1974
• Audit Coverage	January 1, 1999 – December 31, 2000
<b>Headquarters</b>	Madison, WI
<b>Bank Information</b>	
• Bank Depositories	2
• Bank Accounts	5 Federal and 3 Non-Federal Accounts
<b>Treasurers</b>	
• Treasurer When Audit Was Conducted	Steven T. Kean
• Treasurer During Period Covered by Audit	Colleen McGuigan
<b>Management Information</b>	
• Attended FEC Campaign Finance Seminar	No
• Used Commonly Available Campaign Management Software Package	Yes
• Who Handled Accounting and Recordkeeping Tasks	Paid Staff

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

<b>Cash on Hand @ January 1, 1999</b>	<b>\$ 24,688</b>
<b>Receipts</b>	
• Contributions from Individuals	622,723
• Contributions from Political Committees	627,890
• Transfers from Party Committees	2,857,132
• Offsets to Operating Expenditures	57,996
• All Other Receipts	122,783
• Transfers from Non-Federal Account for Joint Activity	3,644,123
<b>Total Receipts</b>	<b>\$7,932,647</b>
<b>Disbursements</b>	
• Operating Expenditures	7,874,909
• All Other Disbursements	21,975
<b>Total Disbursements</b>	<b>\$7,896,884</b>
<b>Cash on Hand @ December 31, 2000</b>	<b>\$ 60,451</b>

## **Part III Summaries**

### **Findings and Recommendations**

#### **Finding 1. Apparent Allocable Expenses Paid from a Non-Federal Account**

The DPW made ten disbursements (\$362,712) from a non-federal account that appear to be for allocable expenses.

In response to the interim audit report recommendation the DPW provided documentation indicating six of the payments were solely non-federal in nature; and, disclosed two other payments as allocable expenses. (For more detail, see p. 4)

#### **Finding 2. Recordkeeping for Disbursements**

The DPW lacked documentation, such as invoices, receipted bills or canceled checks, for approximately 11% of operating expenditures tested in our sample. In addition, a separate review indicated the DPW did not maintain such documentation for six disbursements made to two vendors amounting to \$660,677.

In its response to the interim audit report recommendation the DPW provided documentation for the six disbursements totaling \$660,677. However, DPW failed to provide documentation to resolve the recordkeeping errors identified by our sample. (For more detail, see p. 6)

#### **Finding 3. Disclosure of Receipts and Disbursements**

The DPW did not disclose:

- addresses for 15 contributions, totaling \$281,250, from other political committees;
- a complete address and/or the correct aggregate year-to-date total for 16 offsets to operating expenditures (refunds, rebates, etc.), which totaled \$14,647; and
- the complete address or the correct vendor name for 15 disbursements that totaled \$1,237,019.

In response to the interim audit report recommendation the DPW amended its reports to correctly disclose the receipts and disbursements noted above. (For more detail, see p. 7)

## Part IV

# Findings and Recommendations

### **Finding 1. Apparent Allocable Expenses Paid from a Non-Federal Account**

#### **Summary**

The DPW made ten disbursements (\$362,712) from a non-federal account that appear to be for allocable expenses.

In response to the interim audit report recommendation the DPW provided documentation indicating six of the payments were solely non-federal in nature; and, disclosed two other payments as allocable expenses.

#### **Legal Standard**

**Paying for Allocable Expenses.** FEC regulations offer party committees two ways to pay for allocable, shared federal/non-federal expenses.

- They may pay the entire amount of the shared expense from the federal account and transfer funds from the non-federal account to the federal account to cover the non-federal share of that expense; or
- They may establish a separate, federal allocation account into which the committee deposits funds from both its federal and non-federal accounts solely for the purpose of paying the allocable expenses of shared federal/non-federal activities. 11 CFR §106.5(g)(1)(i) and (ii).

**Reporting Allocable Expenses.** A political committee that allocates federal/non-federal expenses must report each disbursement it makes from its federal account (or separate allocation account) to pay for a shared federal/non-federal expense. Committees report these kinds of disbursements on Schedule H-4 (Shared Expenses). 11 CFR §104.10(b)(4).

**Allocation Ratio for Administrative & Generic Voter Drive Costs.** State and local party committees must allocate their administrative expenses and generic voter drive costs according to the ballot composition method. Under this method, a committee determines the ratio of federal offices to the total number of federal and non-federal offices expected on the ballot in the next general election in the state or geographic area. 11 CFR §106.5(d)(1) and (2).



**Facts and Analysis**

The Audit staff identified 10 payments (\$362,712) made from a non-federal account recorded on the DPW's database as being for polling, generic polling, mailing, radio production and party building. Documentation, such as invoices, bills and receipts, was not available to demonstrate that these were for solely non-federal activities. As such, these payments appear to be for allocable expenses that should have been paid from the DPW's federal account and partially reimbursed by the non-federal account.

As administrative/generic voter drive activities, these expenses should have been allocated using the ballot composition ratio of 42.86%. The Audit staff determined that the possible federal portion was \$155,459 ( $\$362,713 \times 42.86\%$ ). Our analysis indicated that during the audit period the non-federal account could have transferred \$4,388,167 to the federal account for its share of joint activity. Only \$3,644,123 was transferred, \$744,044 less than the amount that could have been transferred. Since the federal portion of the apparent allocable expenses (\$155,459) is less than the underpayment by the non-federal account for its portion of allocable expenses, no transfer of funds is recommended.

At the exit conference, the DPW representative was provided a schedule of these disbursements and was advised to provide documentation to demonstrate that they are not allocable expenses paid from the non-federal account. The representative was also advised that, absent such documentation, the DPW would be requested to file memo entries on Schedules H-4 by reporting period to disclose the payments.

**Interim Audit Report Recommendations**

The Audit staff recommended that the DPW provide documentation for these expenses paid from the non-federal account and provide it for our review. If the documentation supports that these expenses are shared federal/non-federal expenses or wholly federal expenses, it was further recommended that the DPW file the appropriate memo Schedules H-4 or B by reporting period to disclose them.

**Committee Response to Recommendation and the Audit Staff's Assessment**

In its response to the interim audit report, the DPW provided invoices, receipts and other supporting documentation that indicated that six payments, totaling \$252,975, were solely non-federal in nature. The DPW was unable to locate such documentation for two other payments totaling \$77,600 and filed amended memo Schedules H-4 disclosing these payments as shared expenses. For the remaining two payments (\$32,137) no documentation was provided; however, the response stated that invoices had been requested from the vendor, but the DPW had not yet received them. The DPW has substantially complied with our recommendation.

## **Finding 2. Recordkeeping for Disbursements**

### **Summary**

The DPW lacked documentation, such as invoices, receipted bills or canceled checks, for approximately 11% of operating expenditures tested in our sample. In addition, a separate review indicated the DPW did not maintain such documentation for six disbursements made to two vendors amounting to \$660,677.

In response to the interim audit report recommendation the DPW provided documentation for the six disbursements totaling \$660,677. However, DPW failed to provide documentation to resolve the recordkeeping errors identified by our sample. (For more detail, see p. 5)

### **Legal Standard**

**Required Records for Disbursements.** For each disbursement in excess of \$200, the treasurer of a political committee must maintain a receipt, invoice or canceled check. 2 U.S.C. §432(c)(5) and 11 CFR §102.9(b).

**Preserving Records and Copies of Reports.** The treasurer of a political committee must preserve all records and copies of reports for 3 years after the report is filed. 2 U.S.C. §432(d).

### **Facts and Analysis**

Based on a sample review of disbursements, the DPW did not maintain a canceled check, invoice or receipt for approximately 11% of disbursements in excess of \$200.

In addition, a separate review of all disbursements made to two vendors, a media firm and a polling firm, revealed that the DPW failed to maintain a receipt, invoice or canceled checks, for six disbursements totaling \$660,677.

At the exit conference, the Audit staff advised the DPW representative of these matters. The representative stated that canceled checks would be requested from the bank in the future.

### **Interim Audit Report Recommendations**

The Audit staff recommended that the DPW review its disbursement records and identify those payments in amounts greater than \$200 for which there is no canceled check, invoice or bill and obtain and submit the required documentation for the Audit staff's review.

### **Committee Response to Recommendation and the Audit Staff's Assessment**

In its response, documentation was submitted for the six payments (\$660,677) made to a media firm and a polling firm. The DPW provided copies of the front and back of the negotiated checks for three payments totaling \$62,886 and copies of three wire transfers, totaling \$597,791, resolving this matter.

However, DPW failed to provide any documentation to resolve the recordkeeping errors identified by our sample. Rather, the DPW stated in its response that it would be cost prohibitive to order canceled checks. The response further stated that the DPW would be reinstating procedures to receive all canceled checks from the bank in the future.

### **Finding 3. Disclosure of Receipts and Disbursements**

#### **Summary**

The DPW did not disclose:

- addresses for 15 contributions, totaling \$281,250, from other political committees;
- a complete address and/or the correct aggregate year-to-date total for 16 offsets to operating expenditures (refunds, rebates, etc.), which totaled \$14,647; and
- the complete address or the correct vendor name for 15 disbursements that totaled \$1,237,019.

In response to the interim audit report recommendation the DPW amended its reports to correctly disclose the receipts and disbursements noted above

#### **Legal Standard**

**Required Information for Contributions from Political Committees.** For each itemized contribution from a political committee, the committee must provide the following information:

- The political committee's full name and address (including zip code);
- The date of receipt (the date the committee received the contribution);
- The amount of the contribution; and
- The year-to-date total of all contributions from the same political committee. 11 CFR §§100.12 and 104.3(a)(4) and 2 U.S.C. §434(b)(3)(B).

**Required Information for Offsets To Operating Expenditures.** For each itemized offset, the committee must provide the following information:

- The full name and address (including zip code);
- The date of receipt (the date the committee received the offset);
- The amount of the offset; and
- The aggregate, year-to-date total of all offsets from the same persons. 11 CFR §§100.12 and 104.3(a)(4)(v) and 2 U.S.C. §434(b)(3)(F).

**Reporting Operating Expenditures.** When operating expenditures to the same person exceed \$200 in a calendar year, the committee must report the:

- Amount;
- Date when the expenditures were made;
- Name and address of the payee; and
- *Purpose* (a brief description of why the disbursement was made). 2 U.S.C. §434(b)(5)(A) and 11 CFR §104.3(b)(4)(i)(A).

## **Facts and Analysis**

- **Disclosure of Contributions from Political Committees**

The Audit staff reviewed all contributions from political committees and noted that there were fifteen, totaling \$281,250, for which the address was not disclosed on Schedule A (Itemized Receipts). Of these 15 contributions, 14 (\$279,250) were from political action committees and one (\$2,000) was from a candidate committee.

- **Disclosure of Offsets to Operation Expenditures**

The review of all offsets to operating expenditures identified 16 offsets (\$14,647) that were not adequately disclosed. For seven of these items (\$6,968), an incomplete mailing address was disclosed; for eight items (\$5,771), the aggregate year-to-date total was disclosed incorrectly; and, for one (\$1,908), both the mailing address and the aggregate year-to-date total were disclosed incorrectly.

- **Disclosure of Disbursements**

A review of all disbursements made to two vendors, a media firm and a polling firm, indicated that the DPW incorrectly disclosed the vendor name or disclosed an incomplete address for fifteen disbursements totaling \$1,237,019.

The DPW representative stated that the inadequate disclosure of addresses resulted from the addresses not having been entered into its electronic vendor file but believed the problem had been corrected. It appears that the incorrect aggregate totals were the result of the electronic vendor file containing more than one entry for each of these vendors. The multiple entries were treated as if they were different vendors.

At the exit conference, the DPW representative was provided a list of these items. The representative was requested to file amended Schedule A (Itemized Receipts) and Schedules H-4 (Joint Federal/Nonfederal Activity) to correct the disclosure of these transactions. The representative stated that DPW would comply with the recommendation.

## **Interim Audit Report Recommendations and Committee Response**

The Audit staff recommended that the DPW file Schedules A and H4 (by reporting period) to correct the disclosure of the transactions noted above.

In response to the interim audit report, the DPW amended its reports to correctly disclose the receipts and disbursements noted above.