

AGENDA DOCUMENT NO. 12-51



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

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June 21, 2012

MEMORANDUM

To: The Commission

AGENDA ITEM

Through: Alec Palmer
Staff Director

AP

From: Patricia Carmona *AC for PC*
Chief Compliance Officer

For Meeting of *6-27-12*

Thomas Hintermister *TH*
Assistant Staff Director
Audit Division

Marty Kuest *MK*
Audit Manager

By: Lezhi Irving *MK for LI*
Lead Auditor

Subject: Audit Hearing for the Washington State Republican Party (A10-02)

Attached for your information is a copy of the Draft Final Audit Report (DFAR) and Office of General Counsel legal analysis that was mailed to the Washington State Republican Party (WSRP) on April 10, 2012. WSRP formally responded to the report on April 27, 2012, and has requested a hearing before the Commission to present its case. The hearing was granted on May 15, 2012, and has been scheduled for June 27, 2012.

WSRP received the Interim Audit Report (IAR) that contained the same findings presented in the DFAR. In response to the IAR, WSRP filed amended disclosure reports that addressed the three IAR findings. After filing the amendments, WSRP questioned whether an unreported disbursement of \$43,921 on August 5, 2010 and a corresponding unreported receipt in the same amount on August 12, 2010 should have been included in the misstatement total. While WSRP amended its reports to disclose these transactions, WSRP did not believe these transactions should be included in the finding regarding misstatement of financial activity. WSRP explained that the unreported disbursement was a payment mistakenly made for non-federal activity from the federal account and the unreported receipt was the subsequent reimbursement from non-federal

account. In response to the DFAR, WSRP again states its belief that these offsetting transactions should be excluded from the misstatement finding and asks that “the proposed finding regarding understatements of receipts and disbursements each be reduced by \$43,921.”

WSRP questions whether every transaction in a political committee’s (Federal) bank account must appear on the committee’s FEC report, even if the transactions were obvious and quickly rectified errors. WSRP believes that simple payment errors corrected within a reporting period should not be required to be reported. WSRP cited the following previous audit matters as support.

- In WSRP’s response dated April 27, 2012, WSRP cites the Final Audit Report for the Democratic Party of Orange County FED PAC and believes a statement in the report implies that errors corrected within the reporting period might not require reporting. This implication is simply incorrect. In fact, the audit report states that political committees are required to report **all** receipts and disbursements.
- Second, WSRP cites the audit of the Georgia Federal Elections Committee (2006 election cycle) as an instance where the Commission refused to apply an “every account entry” reporting requirement. At issue in this audit was whether the committee’s payroll escrow account was an allocation account and therefore was activity in the account reportable. The Commission adopted a motion the payroll escrow account was not reportable since it served as a pass-through escrow account established to accommodate the committee’s payroll vendor and used for non-allocable disbursements. While this committee was not required to report this activity, it never contended that the activity had occurred as the result of an error nor did it contend that the error had been corrected within the reporting period.
- Third, in its supplemental response dated June 1, 2012, WSRP cites the audit of the Democratic Party of Arkansas (2008 election cycle) concerning the explanation the committee provided with respect to misstated transactions of \$66,000. In that audit, the committee mistakenly paid \$66,000 in non-federal activity from the federal account and then reimbursed the federal account from its non-federal funds account. The reimbursement occurred approximately three weeks after the expense was paid and neither transaction was reported. The committee contends that since both transactions occurred during the same reporting period, they were justified in excluding them from the report. Similar to WSRP, this committee filed amended reports to include the transactions that were originally not reported. The Commission considered the Audit Division Recommendation Memorandum in which the Audit Division recommended that the Commission adopt a finding that the committee misstated its financial activity for 2007. The Commission approved the Audit staff recommendation.

Federal regulations require that a committee accurately report and disclose all activity that passes through their federal bank account(s). The regulations also provide no provision or exception for transactions made in error. Consistent with the Audit staff recommendation in the Democratic Party of Arkansas audit noted above, the Audit staff

maintains the activity be included as part of the committee activity that was misstated for 2010.

Documents related to this audit report can also be viewed in Voting Ballot Matters. Should you have any questions, please contact Lezhi Irving or Marty Kuest at 694-1200.

Attachments:

- Draft Final Audit Report
- Office of General Counsel Legal Analysis of Draft Final Audit Report
- WSRP Response to the Draft Final Audit Report/Request for Hearing
- WSRP Response to the Draft Final Audit Report Additional Citations

cc: Office of General Counsel



Draft Final Audit Report of the Audit Division on the Washington State Republican Party

January 1, 2009 - December 31, 2010

Why the Audit Was Done

Federal law permits the Commission to conduct audits and field investigations of any political committee that is required to file reports under the Federal Election Campaign Act (the Act). The Commission generally conducts such audits when a committee appears not to have met the threshold requirements for substantial compliance with the Act.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. 2)

The Washington State Republican Party is a state party committee headquartered in Bellevue, Washington. For more information, see the chart on the Committee Organization, p. 2.

Financial Activity (p. 2)

• Federal Receipts		
○ Contributions from Individuals		\$1,844,135
○ Contributions from Political Committees		900,961
○ Transfers from Affiliated and Other Political Committees		527,887
○ Transfers from Non-federal and Levin Funds		462,069
○ Other Receipts		44,356
Total Federal Receipts		\$3,779,408
• Federal Disbursements		
○ Operating Expenditures		\$3,753,148
○ Transfers to Affiliated and Other Political Committees		32,334
○ Contributions to Other Committees		27,900
○ Federal Election Activity		103,626
○ Refunds/Other Disbursements		23,837
Total Federal Disbursements		\$3,940,845
• Levin Receipts		\$15,000
• Levin Disbursements		\$32,000

Findings and Recommendations (p. 3)

- Misstatement of Financial Activity (Finding 1)
- Misstatement of Financial Activity – Levin Fund (Finding 2)
- Reporting of Debts and Obligations (Finding 3)

¹ 2 U.S.C. §438(b).

Draft Final Report of the Audit Division on the Washington State Republican Party

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 Washington State Republican Party (WSRP), 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 disclosure of individual contributors' occupation and name of employer;
2. the disclosure of disbursements, debts and obligations;
3. the disclosure of expenses allocated between federal and non-federal accounts;
4. the consistency between reported figures and bank records;
5. the completeness of records; and
6. other committee operations necessary to the review.

Part II

Overview of Committee

Committee Organization

Important Dates	
• Date of Registration	October 14, 1975
• Audit Coverage	January 1, 2009 - December 31, 2010
Headquarters	
Bellevue, Washington	
Bank Information	
• Bank Depositories	Two
• Bank Accounts	Eleven Federal, Nine Non-federal, and One Levin
Treasurer	
• Treasurer When Audit Was Conducted	Colleen Morse
• Treasurer During Period Covered by Audit	Ed Mitchell: February 19, 2005 - July 18, 2009 Colleen Morse: July 19, 2009 - Present
Management Information	
• Attended FEC Campaign Finance Seminar	Yes
• Who Handled Accounting and Recordkeeping Tasks	Paid Staff

Overview of Financial Activity (Audited Amounts)

Federal Cash-on-hand @ January 1, 2009	\$ 155,272
o Contributions from Individuals	1,844,135
o Contributions from Political Committees	900,961
o Transfers from Affiliated and Other Political Committees	527,887
o Transfers from Non-federal and Levin Funds	462,069
o Other Receipts	44,356
Total Federal Receipts	\$3,779,408
o Operating Expenditures	3,753,148
o Transfers to Affiliated and Other Political Committees	32,334
o Contributions to Other Committees	27,900
o Federal Election Activity	103,626
o Refunds/Other Disbursements	23,837
Total Federal Disbursements	\$3,940,845
Federal Cash-on-hand @ December 31, 2010	(\$6,165)²
 Levin Cash-on-hand @ January 1, 2009	 \$17,001
Total Levin Receipts	\$15,000
Total Levin Disbursements	\$32,000
Levin Cash-on-hand @ December 31, 2010	\$1

² Ending cash-on-hand was negative due to outstanding checks as of December 31, 2010.

Part III Summaries

Findings and Recommendations

Finding 1. Misstatement of Financial Activity

A comparison of WSRP's reported activity with bank records revealed a misstatement of its beginning cash-on-hand and receipts for 2009 and a misstatement of receipts, disbursements and ending cash-on-hand for 2010. For 2009, WSRP understated beginning cash-on-hand by \$30,321 and overstated receipts by \$45,641. In 2010, receipts were understated by \$697,155, disbursements were understated by \$1,062,382 and ending cash-on-hand was overstated by \$362,753.

In response to the Interim Audit Report, WSRP filed amended reports that materially corrected the misstatements. (For more detail, see p. 5.)

Finding 2. Misstatement of Financial Activity – Levin Fund

A comparison of WSRP's reported Levin activity with bank records revealed a misstatement of its beginning cash-on-hand and disbursements for 2009 and a misstatement of disbursements and ending cash-on-hand for 2010. For 2009, WSRP overstated beginning cash-on-hand by \$32,499 and overstated disbursements by \$32,499. In 2010, WSRP understated disbursements by \$15,000 and overstated ending cash-on-hand by \$12,500.

In response to the Interim Audit Report, WSRP filed amended reports that corrected the misstatements. (For more detail, see p. 8.)

Finding 3. Reporting of Debts and Obligations

During audit fieldwork, the Audit staff identified debts to five vendors that WSRP failed to report in calendar years 2009 and 2010. WSRP did not report debts totaling \$361,838.

In response to the Interim Audit Report, WSRP amended its reports to disclose these debts. (For more detail, see p. 10.)

Part IV

Findings and Recommendations

Finding 1. Misstatement of Financial Activity

Summary

A comparison of WSRP's reported activity with bank records revealed a misstatement of its beginning cash-on-hand and receipts for 2009 and a misstatement of receipts, disbursements and ending cash-on-hand for 2010. For 2009, WSRP understated beginning cash-on-hand by \$30,321 and overstated receipts by \$45,641. In 2010, receipts were understated by \$697,155, disbursements were understated by \$1,062,382 and ending cash-on-hand was overstated by \$362,753.

In response to the Interim Audit Report, WSRP filed amended reports that materially corrected the misstatements.

Legal Standard

Contents of Reports. Each report must disclose:

- the amount of cash-on-hand at the beginning and end of the reporting period;
- the total amount of receipts for the reporting period and for the calendar year;
- the total amount of disbursements for the reporting period and for the calendar year; and
- certain transactions that require itemization on Schedule A (Itemized Receipts) or Schedule B (Itemized Disbursements). 2 U.S.C. §434(b)(1), (2), (3), (4) and (5).

Facts and Analysis

A. Facts

During audit fieldwork, the Audit staff reconciled reported activity with bank records for 2009 and 2010. It determined that WSRP misstated the beginning cash balance and receipts for 2009 and receipts, disbursements and ending cash balance for 2010. The following charts outline the discrepancies for the cash balances, receipts and disbursements for each year. The succeeding paragraphs address the reasons for the misstatements.

2009 Committee Activity			
	Reported	Bank Records	Discrepancy
Beginning Cash Balance @ January 1, 2009	\$124,951	\$155,272	\$30,321 Understated
Receipts	\$852,256	\$806,615	\$45,641 Overstated
Disbursements	\$970,577	\$952,783	\$17,794 Overstated
Ending Cash Balance @ December 31, 2009	\$6,630	\$9,104	\$2,474 Understated

WSRP understated the beginning cash-on-hand by \$30,321 and did not explain the discrepancy, but it likely resulted from prior period discrepancies.

The overstatement of receipts resulted from the following:

- Reported transfers from Levin (\$32,499) and non-federal accounts (\$30,691) that were not supported by bank deposits or checks/debits by the transferring accounts \$ (63,190)
 - Transfers from affiliated committee and non-federal account not reported 15,097
 - Unexplained differences 2,452
- Net Overstatement of Receipts** **\$ (45,641)**

2010 Committee Activity			
	Reported	Bank Records	Discrepancy
Beginning Cash Balance @ January 1, 2010	\$6,630	\$9,104	\$2,474 Understated
Receipts	\$2,275,638	\$2,972,793	\$697,155 Understated
Disbursements	\$1,925,680	\$2,988,062	\$1,062,382 Understated
Ending Cash Balance @ December 31, 2010	\$356,588	-\$6,165	\$362,753 Overstated

The understatement of receipts resulted from the following:

• Transfer from Levin account not reported	\$ 3,000
• Transfers from non-federal accounts not reported	109,078
• Transfers from political committees not reported	487,215
• Contributions from individuals not reported	93,337
• In-kind contributions not reported as receipts	10,976
• Reported transfer not supported by bank deposits	(11,675)
• Reported contribution not supported by bank deposit	(5,000)
• Unexplained differences	<u>10,224</u>
Net Understatement of Receipts	<u>\$697,155</u>

The understatement of disbursements resulted from the following:

• Payroll expenditures not reported	\$ 33,457
• Operating Expenditures not reported	1,023,213
• Transfers to political committees not reported	25,000
• Contributions to other committees not reported	10,000
• Reported disbursements not supported by checks or debits	(24,185)
• Unexplained differences	<u>(5,103)</u>
Net Understatement of Disbursements	<u>\$1,062,382</u>

The majority of the \$1,023,213 in expenditures not reported included costs associated with mail pieces provided by nine vendors, totaling \$882,966.

The \$362,753 overstatement of the ending cash-on-hand resulted from the misstatements described above.

B. Interim Audit Report & Audit Division Recommendation

Audit staff discussed this matter with WSRP representatives at the exit conference. WSRP representatives made no comment on this matter.

The Interim Audit Report recommended that WSRP amend its disclosure reports to correct the misstatements for both 2009 and 2010, and amend its most recently filed report to correct the cash-on-hand balance with an explanation that the change resulted from a prior period audit adjustment.

Further, the Audit staff recommended that WSRP reconcile the cash balance of its most recent report to identify any subsequent discrepancies that may affect the adjustment recommended by the Audit staff.

C. Committee Response to Interim Audit Report

In response to the Interim Audit Report, WSRP filed amended reports that materially corrected the misstatements.

In addition, a WSRP representative explained that Audit staff should have treated a \$43,921 disbursement from a federal account and a transfer of an identical amount from the nonfederal account to the federal account-- both of which were included as unreported in the Interim Audit Report -- as reversing transactions. These transactions involved a payment mistakenly made from a federal account for nonfederal activity and

the subsequent reimbursement from the nonfederal account. WSRP included both transactions in the amended reports.

Finding 2. Misstatement of Financial Activity – Levin Fund

Summary

A comparison of WSRP's reported Levin activity with bank records revealed a misstatement of its beginning cash-on-hand and disbursements for 2009 and a misstatement of disbursements and ending cash-on-hand for 2010. For 2009, WSRP overstated beginning cash-on-hand by \$32,499 and overstated disbursements by \$32,499. In 2010, WSRP understated disbursements by \$15,000 and overstated ending cash-on-hand by \$12,500.

In response to the Interim Audit Report, WSRP filed amended reports that corrected the misstatements.

Legal Standard

Contents of Levin Reports. Each report must disclose:

- the amount of cash-on-hand for Levin funds at the beginning and end of the reporting period;
- the total amount of Levin fund receipts and disbursements (including allocation transfers) for the reporting period and for the calendar year; and
- certain transactions that require itemization on Schedule L-A (Itemized Receipts of Levin Funds) or Schedule L-B (Itemized Disbursements of Levin Funds). 11 CFR §300.36 (b)(2)(B).

Facts and Analysis

A. Facts

During audit fieldwork, the Audit staff reconciled reported Levin activity with bank records for 2009 and 2010. It determined that WSRP misstated beginning cash-on-hand and disbursements for 2009 and disbursements and ending cash-on-hand for 2010. The following charts outline the discrepancies for the cash balances, receipts, and disbursements for each year. The succeeding paragraphs address the reasons for the misstatements.

2009 Committee Activity			
	Reported	Bank Records	Discrepancy
Beginning Cash Balance @ January 1, 2009	\$49,500	\$17,001	\$32,499 Overstated
Receipts	\$0	\$0	\$0
Disbursements	\$49,499	\$17,000	\$32,499 Overstated
Ending Cash Balance @ December 31, 2009	\$1	\$1	\$0

WSRP overstated the beginning cash balance by \$32,499 and did not explain the discrepancy, but it likely resulted from prior period discrepancies.

The overstatement of disbursements resulted when WSRP erroneously reported transfers of \$32,499 to the federal account. WSRP also identified these transactions as an adjustment to the federal bank reconciliation (see Finding 1, page 5). These transfers appear to have been reported to correct the overstatement of cash-on-hand as of January 1, 2009.

2010 Committee Activity			
	Reported	Bank Records	Discrepancy
Beginning Cash Balance @ January 1, 2010	\$1	\$1	\$0
Receipts	\$12,500	\$15,000	\$2,500 Understated
Disbursements	\$0	\$15,000	\$15,000 Understated
Ending Cash Balance @ December 31, 2010	\$12,501	\$1	\$12,500 Overstated

WSRP did not report a \$15,000 transfer it made to the federal account. The \$12,500 overstatement of the ending cash balance resulted from the misstated receipts and disbursements noted above.

B. Interim Audit Report & Audit Division Recommendation

Audit staff discussed this matter with WSRP representatives at the exit conference. WSRP representatives made no comment on this matter.

The Interim Audit Report recommended that WSRP amend its disclosure reports to correct the misstatements for both 2009 and 2010.³

C. Committee Response to Interim Audit Report

In response to the Interim Audit Report, WSRP filed amended reports that corrected the misstatements.

³ WSRP has not reported any Levin activity for calendar year 2011.

Finding 3. Reporting of Debts and Obligations

Summary

During audit fieldwork, the Audit staff identified debts to five vendors that WSRP failed to report in calendar years 2009 and 2010. Debts totaling \$361,838 were not reported.

In response to the Interim Audit Report, WSRP amended its reports to disclose these debts.

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. Separate Schedules. A political committee must file separate schedules for debts owed by and to the committee with a statement explaining the circumstances and conditions under which it incurred or extinguished each debt and obligation. 11 CFR §104.11(a).

C. Itemizing Debts and Obligations.

- Once it has been outstanding 60 days from the date incurred, a debt of \$500 or less must be reported 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

The Audit staff reviewed vendor invoices and computer files containing WSRP disbursements made in 2009 and 2010. Although WSRP paid the majority of invoices in a timely manner, it carried outstanding balances with five vendors that were not disclosed as debts on Schedule D (Debts and Obligations). The debts totaled \$361,838.⁴

B. Interim Audit Report & Audit Division Recommendation

The Audit staff informed WSRP representatives of this matter at the exit conference and provided schedules detailing the undisclosed debts for each reporting period. WSRP representatives made no comment on this matter.

The Interim Audit Report recommended that WSRP amend its reports to disclose the debts and obligations addressed above.

⁴ Each debt in this amount was counted once. In order for WSRP to correctly file amended reports, a schedule was provided that includes the amount of each debt required to be reported for each reporting period.

C. Committee Response to Interim Audit Report

In response to the Interim Audit Report, WSRP filed amended reports disclosing the debts and obligations.



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

April 3, 2012

MEMORANDUM

TO: Thomas Hintermister
Assistant Staff Director

FROM: Lawrence L. Calvert, Jr.
Associate General Counsel

Lorenzo Holloway
Assistant General Counsel
For Public Finance and Audit Advice

Jennifer Waldman
Paralegal Specialist

SUBJECT: Draft Final Audit Report on Washington State Republican Party (LRA #874)

The Office of General Counsel has reviewed the Draft Final Audit Report on the Washington State Republican Party Committee. We concur with the findings in the Proposed Report (Finding 1 – Misstatement of Financial Activity, Finding 2 – Misstatement of Financial Activity – Levin Fund, and Reporting of Debts and Obligations). If you have any questions, please contact Jennifer Waldman, the paralegal assigned to this audit.

cc: Christopher Hughey, Deputy General Counsel

A R I S T O T L E

Now You Know™

205 Pennsylvania Avenue, S.E.
Washington, D.C. 20003

April 27, 2012

Thomas Hintermister
Assistant Staff Director
Audit Division
Federal Election Commission
999 E Street, NW
Washington, DC 20463

Cc: Commission Secretary

Re: Washington State Republican Committee Response to Draft Final Audit Report
Request for Hearing

Dear Mr. Hintermister:

The Washington State Republican Committee (WSRP) offers this response to the Draft Final Audit Report provided to the Committee and requests a hearing before the Commission to present legal arguments concerning the proposed finding regarding misstatement of financial activity.

Background

The proposed finding on Financial Activity includes a \$43,920.85 disbursement from WSRP's Federal account on August 5, 2010 and a transfer of an identical amount from its non-Federal to its Federal account on August 12, 2010 that were not initially reported. This payment was for state legislative campaign activity (100% non-Federal). The payment was mistakenly made from the Federal account and the error was discovered and rectified in one week. While WSRP amended its reports to disclose these transactions, WSRP does not believe these transactions should be included in the finding regarding misstatement of financial activity.

A combination of Federal and Washington law effectively require WSRP to maintain four separate accounts (Federal, Levin, State Exempt, and State Non-Exempt). Occasionally, especially in the midst of a busy election season, a payment is made or a receipt deposited into an incorrect account. On the receipt side, WSRP performs a daily reconciliation that normally resolves receipt characterizations at the end of each business day. Disbursements are reviewed weekly at a minimum.

In light of this regulatory complexity, WSRP believes there should be room to correct clerical errors in deposit or payment processing. The Audit Division's finding currently counts this error against WSRP twice: first as an unreported disbursement, and second as an unreported receipt (transfer) from the state account. While this accounting presents a technically correct picture of WSRP's bank account activity, it presents a substantively misleading picture of WSRP's Federal and non-Federal activity. WSRP believes these transactions should be excluded from the finding regarding misstatement of financial activity.

Issue Presented

The audit division's position appears to be that every transaction in a political committee's (Federal) bank account must appear on the committee's FEC report, even if the transactions were obvious and quickly rectified errors. WSRP believes that simple payment errors corrected within a reporting period should not be required to be reported.

Analysis

In the analogous context of correcting mistaken deposits the audit division itself appears to have acknowledged that a reasonable cure period for simple banking errors is appropriate. The Final Audit Report for the Democratic Party of Orange County FED PAC (September 29, 2011) notes:

During audit fieldwork, DPOC representatives inquired as to whether they were required to report deposit errors made and corrected within a reporting period. The Audit staff noted that DPOC did not correct all of the errors within a reporting period.

This statement implies that errors corrected within the reporting period might not require reporting.¹ That is precisely the situation of this transaction by WSRP.

¹ The DPOC report goes on to note that not all errors by that committee were corrected within the same reporting period and the number of occurrences indicated a systemic problem. In WSRP's case the error was corrected in the same reporting period and this type of error occurred one time only.

In the Final Audit Report on the Georgia Federal Elections Committee (August 15, 2011) the Commission failed to adopt a recommended finding that the Georgia Committee should have reported non-Federal disbursements from a payroll account. This is another instance where the Commission refused to apply an “every account entry” reporting requirement. Commissioners who supported the proposed finding in the Georgia audit need not concede that ongoing activity from a shared account is exempt from reporting to conclude in this case that a one-time error should be exempt.

In at least one circumstance, the Commission explicitly approves excluding offsetting transactions within a single reporting period from FEC reports. In discussing reporting requirements for bounced checks, the Commission’s Campaign Guide for Party Committees (page 77, 2009) states: “Checks received and returned by the bank in the same reporting period do not need to be reported.” WSRP believes that a similar offsetting transaction rule should apply to disbursement errors where an offsetting transaction corrects the error within the same reporting period.

Conclusion

WSRP believes that political committees maintaining Federal and non-Federal accounts should be permitted to correct deposit or payment errors between the accounts within a reporting period without a requirement to report the offsetting account transactions. Requiring reporting of simple and rapidly corrected banking errors serves no public purpose, and, indeed, would present a misleading picture of a committee’s political activity. WSRP asks that the proposed findings regarding understatements of receipts and disbursements each be reduced by \$43,921 to exclude these offsetting transactions.

Sincerely,

David M. Mason

David M. Mason
Senior Vice President, Compliance Services
Aristotle International
for Washington State Republican Committee

A R I S T O T L E

Now You Know™

205 Pennsylvania Avenue, S.E.
Washington, D.C. 20003

June 1, 2012

Thomas Hintermister
Assistant Staff Director
Audit Division
Federal Election Commission
999 E Street, NW
Washington, DC 20463

By e-mail

Re: Washington State Republican Committee Response to Draft Final Audit Report –
Additional Citations

Dear Mr. Hintermister:

Thank you for the opportunity to provide additional citations in support of the Washington State Republican Committee's (WSRP) response to the Draft Final Audit Report.

The Final Audit Report on the Democratic Party of Arkansas (2007-2008) included a finding that the Committee failed to report \$66,000 in non-Federal activity mistakenly paid for out of the federal account and failed to report a reimbursement of this amount from the non-federal account. The reimbursement was made about three weeks after the payment and within the same reporting period. The audit division recommended amending reports to disclose both transactions. The Committee indicated it believed it was justified in excluding the transaction because it was in the same reporting period, but complied with the recommendation and did not contest the finding after the exit conference.

11 CFR 102.5(a)(1)(i) generally bans transfers from the non-federal to the federal account. This requirement is summarized in several audit reports as “Generally, a political committee may not transfer funds from its non-federal account to its federal account, except when the committee follows specific rules for paying for shared federal/non-federal election

activity.” A transfer from the non-federal to the federal account to rectify a payment error is not among the specified exceptions to the general transfer ban.

The audit division appears to have taken the position in the WSRP, Orange County (cited previously), and Arkansas audits that such remedial transfers from a non-federal account are permissible, but must be reported. That position recognizes the practical necessity of a method to remedy inadvertent payment errors in circumstances the regulations do not appear to contemplate.

Outside the audit context, however, “Transfers received by a federal account from its non-federal account(s) for purposes other than the payment of shared activities” will generate an RFAI and potential audit points from the Reports Analysis Division. Reports Analysis Division Review and Referral Procedures for the 2011-2012 Election Cycle, page 47.

While RAD procedures could, in turn, be revised to accommodate corrective non-federal to federal transfers, such revisions would introduce additional complications. Thus, WSRP continues to believe that simple payment errors should be correctable by transfer and that corrections made in the same reporting period as the initial payment should not be required to be reported.

Thank you again this opportunity to respond to the draft final audit report.

Sincerely,

David M. Mason

David M. Mason
Senior Vice President, Compliance Services
Aristotle International
for Washington State Republican Committee