



# Interim Audit Report of the Audit Division on the Tennessee Democratic Party

(January 1, 2011 - December 31, 2012)

## 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.<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 the matter discussed in this report.

## About the Committee (p. 2)

The Tennessee Democratic Party is a state party committee headquartered in Nashville, Tennessee. For more information, see the chart on the Committee organization, p. 2.

## Financial Activity (p. 2)

• Receipts	
○ Contributions from Individuals	\$1,371,485
○ Political Committee Contributions	160,485
○ Transfers from Affiliates	426,007
○ Transfers from Non-federal and Levin Accounts	647,358
○ Other Receipts	79,155
<b>Total Receipts</b>	<b>\$2,684,490</b>
• Disbursements	
○ Operating Expenditures	\$1,536,893
○ Transfers to Affiliates	10,185
○ Independent Expenditures	20,100
○ Coordinated Party Expenditures	975
○ Federal Election Activity	1,091,186
○ Other Disbursements	46,828
<b>Total Disbursements</b>	<b>\$2,706,167</b>
• Levin Receipts	\$150,000
• Levin Disbursements	\$137,180

## Finding and Recommendation (p. 4)

Filing of Levin Schedules

<sup>1</sup> 2 U.S.C. §438(b).

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# **Part I**

## **Background**

### **Authority for Audit**

This report is based on an audit of the Tennessee Democratic Party (TDP), 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;
2. the disclosure of individual contributors' occupation and name of employer;
3. the disclosure of disbursements, debts and obligations;
4. the disclosure of expenses allocated between federal, non-federal, and Levin accounts;
5. the consistency between reported figures and bank records;
6. the disclosure of independent expenditures;
7. the completeness of records; and
8. other committee operations necessary to the review.

## Part II

### Overview of Committee

#### Committee Organization

<b>Important Dates</b>	
• Date of Registration	May 19, 1983
• Audit Coverage	January 1, 2011 - December 31, 2012
<b>Headquarters</b>	
Nashville, Tennessee	
<b>Bank Information</b>	
• Bank Depositories	Two
• Bank Accounts	Five federal, Three non-federal, One Levin
<b>Treasurer</b>	
• Treasurer When Audit Was Conducted	Wade Munday
• Treasurer During Period Covered by Audit	Matt Langley: January 1, 2011-October 10, 2011 David Garrison: October 11, 2011-December 31, 2012
<b>Management Information</b>	
• Attended Commission Campaign Finance Seminar	Yes
• Who Handled Accounting and Recordkeeping Tasks	Paid Staff

## Overview of Financial Activity (Audited Amounts)

<b>Cash-on-hand @ January 1, 2011</b>	<b>\$ 45,680</b>
<b>Receipts</b>	
o Contributions from Individuals	1,371,485
o Political Committee Contributions	160,485
o Transfers from Affiliates	426,007
o Transfers from Non-Federal and Levin Accounts	647,358
o Other Receipts	79,155
<b>Total Receipts</b>	<b>\$ 2,684,490</b>
<b>Disbursements</b>	
o Operating Expenditures	1,536,893
o Transfers to Affiliates	10,185
o Independent Expenditures	20,100
o Coordinated Party Expenditures	975
o Federal Election Activity	1,091,186
o Other Disbursements	46,288
<b>Total Disbursements</b>	<b>\$ 2,706,167</b>
<b>Cash-on-hand @ December 31, 2012</b>	<b>\$ 23,804<sup>2</sup></b>
<b>Levin Cash-on-hand @ January 1, 2011</b>	<b>\$ 0</b>
<b>Total Levin Receipts</b>	<b>\$ 150,000</b>
<b>Total Levin Disbursements</b>	<b>\$ 137,180</b>
<b>Levin Cash-on-hand @ December 31, 2012</b>	<b>\$ 12,820</b>

<sup>2</sup> The Committee's ending cash on hand was understated by \$199 due to immaterial reporting errors.

## **Part III Summary**

### **Finding and Recommendation**

#### **Filing of Levin Schedules**

A review of Levin activity indicated that TDP received and disbursed Levin funds during calendar year 2012 that totaled \$150,000 and \$137,180, respectively. TDP did not, however, disclose this activity on Schedule L (Aggregation Page: Levin Funds), Schedule L-A (Itemized Receipts of Levin Funds), or Schedule L-B (Itemized Disbursements of Levin Funds). After the Audit staff brought this omission to TDP's attention, TDP filed the missing schedules. The Audit staff recommends that TDP submit any additional information or comments it considers relevant to the matter. (For more detail, see p. 5.)

## Part IV

# Finding and Recommendation

### Finding 1. Filing of Levin Schedules

#### Summary

A review of Levin activity indicated that TDP received and disbursed Levin funds during calendar year 2012 that totaled \$150,000 and \$137,180, respectively. TDP did not, however, disclose this activity on Schedule L (Aggregation Page: Levin Funds), Schedule L-A (Itemized Receipts of Levin Funds), or Schedule L-B (Itemized Disbursements of Levin Funds). After the Audit staff brought this omission to TDP's attention, TDP filed the missing schedules. The Audit staff recommends that TDP submit any additional information or comments it considers relevant to the matter.

#### Legal Standard

##### A. Reporting.

If a state, district or local party committee's combined annual receipts and disbursements for federal election activity (FEA) total \$5,000 or more during the calendar year, the committee must disclose receipts and disbursements of federal funds and Levin funds used for FEA. 11 CFR §300.36(b)(2).

##### B. 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 for the reporting period and for the calendar year;
- the total amount of Levin fund disbursements (including allocation transfers) for the reporting period and 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) – itemize receipts and disbursements of \$200 or more to or from any person for Federal election activities.

11 CFR §300.36 (b)(2).

#### Facts and Analysis

##### A. Facts

The Audit staff reviewed TDP's Levin activity and noted that TDP received \$150,000 and disbursed \$137,180 during the 2012 Post-General reporting period (October 18, 2012 – November 26, 2012).<sup>3</sup> For this period, the beginning cash balance was \$0 and the ending cash balance was \$12,820. TDP did not, however, file the required Schedules L, L-A and L-B until the Audit staff brought the omission to TDP's attention during audit

<sup>3</sup> This was TDP's only Levin activity for the period covered by the audit.



fieldwork. A TDP representative acknowledged that TDP did not file the schedules due to an error during transmission of the reports required for the reporting period.

TDP maintained a separate bank account for its Levin fund receipts and disbursements. The 2012 Levin fund receipts consisted of transfers from TDP's non-federal account. The 2012 Levin fund disbursements consisted mainly of a transfer to TDP's non-federal account and payments for voter identification and get-out-the-vote programs.

**B. Interim Audit Report & Audit Division Recommendation**

The Audit staff discussed this issue with TDP representatives during the exit conference. TDP representatives reiterated that TDP did not disclose the Levin fund activity due to an oversight and that as soon as the Audit staff notified TDP of this omission, it filed the missing Levin schedules with the Commission.

The Audit staff recommends that, within 30 calendar days of service of this report, TDP submit any additional information or comments it considers relevant to the matter.

<b>Summary of Previous Audits</b>
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**Name of Committee:** Tennessee Democratic Party  
**Election Cycle Audited:** 2005-2006  
**Final Audit Report Release Date:** April 20, 2011

**Finding 1- Non-allocable Federal Election Activity Disclosed on Schedule H6**

During audit fieldwork, a review of disbursements identified what appeared to be non-allocable federal election activity that was reported on Schedule H6 (Disbursements of Federal and Levin Funds for Allocated Federal Election Activity). Payments, totaling \$98,321—for polls (\$24,500), automated phone banks (\$36,400), and campaign rallies (\$37,421, including \$900 for custom-labeled bottled water)—were reportedly allocated 21% federal and 79% Levin. However, the telephone scripts for the automated phone banks referred to a clearly identified candidate running for federal office, as did documentation associated with the other programs. In response to the Interim Audit Report, TDP agreed that the automated phone banks were not allocable federal election activity, but maintained that the rallies were correctly classified. TDP also amended its reports to reflect the cost of the polls as allocable operating costs. In addition to its response to the Interim Audit Report and the Draft Final Audit Report, TDP was granted a hearing for Commission consideration of the issues.

**The Commission:**

- approved the finding of the Audit Division with respect to automated phone banks and custom-labeled water bottles;
- concluded that the cost of the polls were properly reported on Schedule H4 (Disbursements for Allocated Federal/Nonfederal Activity) as shared operating expenditures as TDP had done in response to the Interim Audit Report; and,
- concluded that, with the exception of the invoice for custom-labeled bottled water that identified a specific federal candidate, there was insufficient evidence regarding the rallies to determine that they were not allocable federal election activity.

**Finding 2- Disclosure of Disbursements**

During audit fieldwork, a sample review of itemized expenditures revealed that for approximately 18% of the items tested, TDP did not disclose the payee's address. In response to the Interim Audit Report, TDP filed amended reports that materially disclosed the missing information. The Commission approved this finding.