



# Final Audit Report of the Commission on Djou for Hawaii

(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.<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 Campaign (p. 2)

Djou for Hawaii is the principal campaign committee for Charles Kong Djou, Republican candidate for the U. S. House of Representatives from the state of Hawaii, 1<sup>st</sup> District, headquartered in Honolulu, Hawaii. For more information, see the chart on the Campaign Organization, p. 2.

## Financial Activity (p. 2)

• <b>Receipts</b>	
○ Contributions from Individuals	\$ 1,917,158
○ Contributions from Other Political Committees	717,032
○ Transfers from Other Authorized Committees	38,069
<b>Total Receipts</b>	<b>\$ 2,672,259</b>
• <b>Disbursements</b>	
○ Operating Expenditures	\$ 2,597,123
○ Contribution Refunds	5,985
<b>Total Disbursements</b>	<b>\$ 2,603,108</b>

## Commission Findings (p. 3)

- Misstatement of Financial Activity (Finding 1)
- Failure to File 48-Hour Notices (Finding 2)
- Reporting of Debts and Obligations (Finding 3)

<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 Djou for Hawaii (DFH), 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 receipt of excessive contributions and loans;
2. the receipt of contributions from prohibited sources;
3. the disclosure of contributions received;
4. the disclosure of disbursements, debts and obligations;
5. the consistency between reported figures and bank records;
6. the completeness of records; and
7. other campaign operations necessary to the review.

### **Audit Hearing**

DFH declined the opportunity for a hearing before the Commission on the matters presented in this report.

## Part II

### Overview of Campaign

#### Campaign Organization

<b>Important Dates</b>	
• Date of Registration	November 23, 2007
• Audit Coverage	January 1, 2009 - December 31, 2010
<b>Headquarters</b>	Honolulu, Hawaii
<b>Bank Information</b>	
• Bank Depositories	One
• Bank Accounts	One checking
<b>Treasurer</b>	
• Treasurer When Audit Was Conducted	Chris S. Mashiba
• Treasurer During Period Covered by Audit	Chris S. Mashiba
<b>Management Information</b>	
• Attended Commission Campaign Finance Seminar	No
• Who Handled Accounting and Recordkeeping Tasks	Volunteer Staff

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

<b>Cash-on-hand @ January 1, 2009</b>	<b>\$ 123,939</b>
<b>Receipts</b>	
○ Contributions from Individuals	1,917,158
○ Contributions from Other Political Committees	717,032
○ Transfers from Other Authorized Committees	38,069
<b>Total Receipts</b>	<b>\$2,672,259</b>
<b>Disbursements</b>	
○ Operating Expenditures	2,597,123
○ Contribution Refunds	5,985
<b>Total Disbursements</b>	<b>\$2,603,108</b>
<b>Cash-on-hand @ December 31, 2010</b>	<b>\$ 193,090</b>

## **Part III**

### **Summaries**

#### **Commission Findings**

##### **Finding 1. Misstatement of Financial Activity**

During audit fieldwork, a comparison of reported figures with bank records revealed that DFH overstated its December 31, 2010 cash-on-hand balance by \$53,302. In response to the Interim Audit Report recommendation, DFH filed amended reports that materially corrected the above misstatement.

The Commission approved a finding that DFH misstated its cash-on-hand for December 31, 2010.

(For more detail, see p. 4.)

##### **Finding 2. Failure to File 48-Hour Notices**

During audit fieldwork, the Audit staff noted that DFH failed to file 48-hour notices for 28 contributions, totaling \$50,700, that were received prior to the special election and subsequent primary and general elections. In response to the Interim Audit Report recommendation, DFH explained that the enormous volume of receipts during the notification period and a shortage of manpower resulted in notices for the identified contributions not being filed.

The Commission approved a finding that DFH failed to file 48-hour notices for 28 contributions totaling \$50,700.

(For more detail, see p. 5.)

##### **Finding 3. Reporting of Debts and Obligations**

During audit fieldwork, the Audit staff identified debts totaling \$168,990 that were not disclosed on Schedule D (Debts and Obligations). In response to the Interim Audit Report recommendation, DFH materially corrected the omission by filing amended Schedules D. In response to the DFAR, the finding amount was adjusted to \$124,318, to reflect the actual debt not reported.

The Commission approved a finding that DFH failed to report debts and obligations totaling \$124,318.

(For more detail, see p. 6.)

## Part IV

# Commission Findings

### **Finding 1. Misstatement of Financial Activity**

#### **Summary**

During audit fieldwork, a comparison of reported figures with bank records revealed that DFH overstated its December 31, 2010 cash-on-hand balance by \$53,302. In response to the Interim Audit Report recommendation, DFH filed amended reports that materially corrected the above misstatement.

The Commission approved a finding that DFH misstated its cash-on-hand for December 31, 2010.

#### **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 election cycle; and
  - the total amount of disbursements for the reporting period and for the election cycle.
- 2 U.S.C. §434(b)(1), (2), and (4).

#### **Facts and Analysis**

##### **A. Facts**

During audit fieldwork, the Audit staff reconciled DFH's reported activity with its bank records for the period covered by the audit and determined that DFH overstated the ending cash-on-hand balance as of December 31, 2010 by \$53,302. This was due primarily to reporting discrepancies noted in disclosure reports filed during the audit period.

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

At the exit conference, the Audit staff explained the misstatement and subsequently provided DFH representatives with schedules detailing the discrepancy identified during the audit period. The representatives indicated that DFH would file the necessary amendment.

The Interim Audit Report recommended that DFH amend the cash balance on its most recently filed report with an explanation that the change resulted from a prior-period audit adjustment. Further, the Audit Report recommended that DFH 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, DFH filed amended reports that materially corrected the above misstatement.

**D. Draft Final Audit Report**

In the Draft Final Audit Report, the Audit Staff acknowledged that DFH materially resolved the misstatements by filing amended disclosure reports.

**E. Committee Response to the Draft Final Audit Report**

DFH did not offer any additional comments in its response to the Draft Final Audit Report.

**Commission Conclusion**

On August 8, 2012, the Commission considered the Audit Division Recommendation Memorandum which recommended that the Commission adopt a finding that DFH misstated its cash-on-hand for December 31, 2010.

The Commission approved the Audit staff's recommendation.

<b>Finding 2. Failure to File 48-Hour Notices</b>
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**Summary**

During audit fieldwork, the Audit staff noted that DFH failed to file 48-hour notices for 28 contributions, totaling \$50,700, that were received prior to the special election and subsequent primary and general elections. In response to the Interim Audit Report recommendation, DFH explained that the enormous volume of receipts during the notification period and a shortage of manpower resulted in notices for the identified contributions not being filed.

The Commission approved a finding that DFH failed to file 48-hour notices for 28 contributions totaling \$50,700.

**Legal Standard**

**Last-Minute Contributions (48-Hour Notice).** Campaign committees must file special notices regarding contributions of \$1,000 or more received less than 20 days but not more than 48-hours before any election in which the candidate is running. This rule applies to all types of contributions to any authorized committee of the candidate, including:

- contributions from the candidate;
- loans from the candidate and other non-bank sources; and
- endorsements or guarantees of loans from the banks. 11 CFR §104.5(f).

**Facts and Analysis****A. Facts**

During audit fieldwork, the Audit staff identified 199 contributions, totaling \$338,471, that were greater than \$1,000 and were received during the 48-hour notice period for the special general election, as well as subsequent primary and general elections. A review of these contributions indicated that DFH did not file 48-hour notices for 28 contributions totaling \$50,700.

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

At the exit conference, the Audit staff provided DFH representatives with schedules detailing the failure to file notices for 48 contributions totaling \$87,700. In response to the exit conference, DFH demonstrated that it had not received 20 of the contributions, totaling \$37,000, within the notice period. Those contribution amounts have been removed from the above total (\$50,700 = \$87,700 - \$37,000).

The Interim Audit Report recommended that DFH provide documentation demonstrating that it had filed 48-hour notices for the contributions in question or documentation establishing that the contributions were not subject to 48-hour notification.

### **C. Committee Response to Interim Audit Report**

DFH cited the enormous volume of contributions received in the notice period and the shortage of manpower as contributing factors in its failure to file 48-hour notices for the remaining \$50,700 in contributions identified in the audit. A committee representative further explained: "However, on certain occasions, I was not able to report some of the contributions for the 48 hour report that were received on the respective 48 hour report date because they were in fact entered into the software a day or two later by another volunteer staff member. This procedure has been corrected and should not happen again in this next election cycle."

### **D. Draft Final Audit Report**

In the Draft Final Audit Report, the Audit Staff acknowledged that DFH failed to file 48-hour notices for 28 contributions totaling \$50,700.

### **E. Committee Response to the Draft Final Audit Report**

DFH did not offer any additional comments in its response to the Draft Final Audit Report.

### **Commission Conclusion**

On August 8, 2012, the Commission considered the Audit Division Recommendation Memorandum which recommended that the Commission adopt a finding that DFH failed to file 48-hour notices for 28 contributions totaling \$50,700.

The Commission approved the Audit staff's recommendation.

## **Finding 3. Reporting of Debts and Obligations**

### **Summary**

During audit fieldwork, the Audit staff identified debts totaling \$168,990 that were not disclosed on Schedule D (Debts and Obligations). In response to the Interim Audit Report recommendation, DFH materially corrected the omission by filing amended Schedules D. In response to the DFAR, the finding amount was adjusted to \$124,318, to reflect the actual debt not reported.

The Commission approved a finding that DFH failed to report debts and obligations totaling \$124,318.

### **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. Obligation to Estimate Debt.** When the exact amount of a debt or obligation is not known, the report shall state that the amount reported is an estimate. Once the exact amount is determined, the political committee shall either amend the report(s) containing the estimate or indicate the correct amount on the report for the reporting period in which such amount is determined

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

### **D. Itemizing Debts and Obligations.**

- A debt of \$500 or less must be reported once it has been outstanding 60 days from the date incurred (the date of the transaction); the committee reports it 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**

During audit fieldwork, the Audit staff noted that the DFH disclosure reports filed during the audit period did not disclose any debt owed. Although DFH paid the majority of its vendor invoices in a timely manner, the review of DFH disbursements identified debts totaling \$168,990<sup>2</sup> that should have been reported on Schedule D.

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

The Audit staff informed DFH representatives of this matter at the exit conference and subsequently provided schedules detailing the undisclosed debts for each reporting period of the audit cycle. DFH representatives indicated that DFH would file amended reports.

The Interim Audit Report recommended that DFH amend its reports to disclose all unreported debts and obligations.

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<sup>2</sup> Each debt in this amount was counted once even if it required disclosure over multiple reporting periods. In order for DFH to correctly file amended reports, the schedule provided included the amount of each debt required to be reported for each reporting period.

**C. Committee Response to Interim Audit Report**

DFH filed amended Schedules D that materially corrected the unreported debts and obligations. Further, DFH's response stated that it continued to believe that a majority of the unrecorded debts involved instances in which invoices had not been received until shortly before payment was made or involved invoiced amounts that had been in dispute. Consequently, the actual amount of the debt was unknown at the time the reports were due.

**D. Draft Final Audit Report**

In the Draft Final Audit Report, the Audit Staff acknowledged that DFH failed to report debts and obligations totaling \$168,990.

**E. Committee Response to the Draft Final Audit Report**

In response to the Draft Final Audit Report, DFH questioned the sample projection for unreported debt totaling \$168,990 as being greater than the actual amount identified by the audit. DFH stated that debts and obligations totaling \$124,318 that were included on its amended reports filed in response to the interim audit report represent DFH's unreported debt. DFH requested that the finding total be revised to the lower amount. Upon further review, the Audit staff revised the amount of unreported debts to \$124,318.

**Commission Conclusion**

On August 8, 2012, the Commission considered the Audit Division Recommendation Memorandum which recommended that the Commission adopt a finding that DFH failed to report debts and obligations totaling \$124,318.

The Commission approved the Audit staff's recommendation.