



Final Audit Report of the Commission on the Tennessee Democratic Party

(January 1, 2015 - December 31, 2016)

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 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 | \$ 1,107,037 |
| ○ Contributions from Other Political Committees | 115,750 |
| ○ Transfers from Affiliated/Other Party Committees | 3,457,311 |
| ○ Transfers from Nonfederal Account | 411,213 |
| ○ Other Receipts | 88,883 |
| Total Receipts | \$ 5,180,194 |

• Disbursements

| | |
|--|---------------------|
| ○ Operating Expenditures | \$ 1,217,969 |
| ○ Transfers to Affiliated/Other Party Committees | 3,161,140 |
| ○ Federal Election Activity | 643,657 |
| ○ Other Disbursements | 160,453 |
| Total Disbursements | \$ 5,183,219 |

Commission Findings (p. 3)

- Misstatement of Financial Activity (Finding 1)
- Receipt of Contributions in Excess of the Limit (Finding 2)
- Disclosure of Joint Fundraising Transfers (Finding 3)
- Recordkeeping for Employees (Finding 4)
- Reporting of Debts and Obligations (Finding 5)

¹ 52 U.S.C. §30111(b).



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Commission
on the
Tennessee Democratic Party**

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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 52 U.S.C. §30111(b), which permits the Commission to conduct audits and field investigations of any political committee that is required to file a report under 52 U.S.C. §30104. 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. 52 U.S.C. §30111(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 receipt of contributions from prohibited sources;
3. the disclosure of contributions received;
4. the disclosure of individual contributors' occupation and name of employer;
5. the disclosure of disbursements, debts and obligations;
6. the disclosure of expenses allocated between federal and non-federal accounts;
7. the consistency between reported figures and bank records;
8. the completeness of records; and
9. other committee operations necessary to the review.

Commission Guidance

Request for Early Commission Consideration of a Legal Question

Pursuant to the Commission's "Policy Statement Establishing a Program for Requesting Consideration of Legal Questions by the Commission," several state party committees, unaffiliated with TDP, requested early consideration of a legal question raised during audits covering the 2010 election cycle. Specifically, the Commission addressed whether monthly time logs under 11 CFR §106.7(d)(1) were required for employees paid with 100 percent federal funds.

The Commission concluded, by a vote of 5-1, that 11 CFR §106.7(d)(1) does require committees to keep a monthly log for employees paid exclusively with federal funds. Exercising its prosecutorial discretion, however, the Commission decided it will not pursue recordkeeping violations for the failure to keep time logs or to provide affidavits to account for employee salaries paid with 100 percent federal funds and reported as such. The Audit staff informed TDP representatives of the payroll requirement and the Commission's decision not to pursue recordkeeping violations for failure to keep payroll logs for salaries paid and correctly reported as 100 percent federal. This audit report does not include any findings or recommendations with respect to TDP employees paid with 100 percent federal funds and reported as such.

Audit Hearing

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

Part II

Overview of Committee

Committee Organization

| | |
|--|--|
| Important Dates | |
| • Date of Registration | May 19, 1983 |
| • Audit Coverage | January 1, 2015 - December 31, 2016 |
| Headquarters | |
| Nashville, Tennessee | |
| Bank Information | |
| • Bank Depositories | Three |
| • Bank Accounts | Three Federal and One Non-Federal |
| Treasurer | |
| • Treasurer When Audit Was Conducted | Dr. Geeta McMillan (2/10/17 - Present) |
| • Treasurer During Period Covered by Audit | Wade Munday (1/29/13 - 2/9/17) |
| Management Information | |
| • Attended FEC Campaign Finance Seminar | Yes |
| • Who Handled Accounting and Recordkeeping Tasks | Paid Staff |

Overview of Financial Activity (Audited Amounts)

| | |
|--|---------------------|
| Cash on hand @ January 1, 2015 | \$ 12,080 |
| Receipts | |
| ○ Contributions from Individuals | 1,107,037 |
| ○ Contributions from Other Political Committees | 115,750 |
| ○ Transfers from Affiliated/Other Party Committees | 3,457,311 |
| ○ Transfers from Nonfederal Account | 411,213 |
| ○ Other Receipts | 88,883 |
| Total Receipts | \$ 5,180,194 |
| Disbursements | |
| ○ Operating Expenditures | 1,217,969 |
| ○ Transfers to Affiliated/Other Party Committees | 3,161,140 |
| ○ Federal Election Activity | 643,657 |
| ○ Other Disbursements | 160,453 |
| Total Disbursements | \$ 5,183,219 |
| Cash on hand @ December 31, 2016 | \$ 9,055 |

Part III Summaries

Commission Findings

Finding 1. Misstatement of Financial Activity

During audit fieldwork, a comparison of TDP's reported financial activity with its bank records revealed a misstatement of receipts and disbursements in calendar year 2015. Specifically, TDP understated its receipts and disbursements by \$148,395 and \$147,409, respectively. In response to the Interim Audit Report recommendation, TDP amended its disclosure reports correcting the misstatements for the 2015 calendar year. TDP provided no formal response to the Draft Final Audit Report.

Additionally, a comparison of TDP's bank activity with its original reports filed for 2015 and 2016 also revealed a material misstatement of receipt and disbursement activity. In response to the Interim Audit Report recommendation, TDP had no comments. TDP provided no formal response to the Draft Final Audit Report.

The Commission approved a finding that TDP understated receipts and disbursements by \$148,395 and \$147,409, respectively for calendar year 2015. Additionally, the Commission approved a finding that TDP understated receipts by \$1,362,191 and disbursements by \$1,377,720 on the original reports filed over the two-year period ending December 31, 2016. (For more detail, see p. 6.)

Finding 2. Receipt of Contributions in Excess of the Limit

During audit fieldwork, the Audit staff reviewed contributions from individuals to determine if any exceeded the contribution limit. This review indicated that TDP received apparent excessive contributions totaling \$166,450². Errors totaling \$151,200³ occurred due to TDP not notifying contributors that the excessive portion of the contribution was transferred to the non-federal account. In response to the Interim Audit Report recommendation, TDP provided copies of letters to contributors, notifying them that the excessive portion of their contribution had been transferred to the non-federal account and offering the "option to request a refund", thus untimely resolving the excessive portion. For the remaining excessive contributions totaling \$15,250, TDP also notified contributors, via letter, that the excessive portion of their contribution had been "allocated" to the non-federal account and offered an "option to request a refund." TDP has not yet made the transfer to the non-federal account totaling \$15,000⁴, but reported

² The sample projection amount of \$34,824 was removed by the Audit staff from this finding after further analysis.

³ This amount includes \$10,250 that was eligible for presumptive reattribution. However, instead of presumptively reattributing the excessive portion to another contributor, TDP transferred the funds to its non-federal account.

⁴ In June 2019, subsequent to the Draft Final Audit Report, TDP transferred the \$15,000 to the non-federal account.

the transfer as a debt on Schedule D (Debts and Obligations) and refunded \$250 to one contributor. TDP provided no formal response to the Draft Final Audit Report.

The Commission approved a finding that TDP received excessive contributions totaling \$166,450. (For more detail, see p. 9.)

Finding 3. Disclosure of Joint Fundraising Transfers

During audit fieldwork, the Audit staff reviewed receipts to verify the accuracy of the information disclosed on TDP's reports. TDP received net proceeds of \$3,113,531 from two joint fundraisers but did not itemize memo entries totaling \$1,509,766 on Schedule A (Itemized Receipts), as required. These memo entries represented the gross contributions from the original contributors. In response to the Interim Audit Report recommendation, TDP filed amended Schedules A itemizing the memo entries totaling \$1,509,766. TDP provided no formal response to the Draft Final Audit Report.

The Commission approved a finding that TDP failed to disclose memo entries which represented the gross contributions from the original contributors totaling \$1,509,766. (For more detail, see p. 13.)

Finding 4. Recordkeeping for Employees

During audit fieldwork, the Audit staff determined that TDP did not maintain monthly payroll logs, as required, to document the percentage of time each employee spent in connection with a federal election. For 2015 and 2016, the Audit staff identified payments to TDP employees totaling \$409,900 for which TDP did not maintain monthly payroll logs. This consisted of payroll which was allocated with federal and non-federal funds. There was no payroll paid exclusively with non-federal funds. In response to the Interim Audit Report recommendation, TDP stated that it now has procedures in place to track the percentage of time employees spend on federal election activities. TDP provided no formal response to the Draft Final Audit Report.

The Commission approved a finding that TDP failed to maintain monthly payroll logs totaling \$409,900, as required, to document the percentage of time each employee spent in connection with a federal election. (For more detail, see p. 14.)

Finding 5. Reporting of Debts and Obligations

During audit fieldwork, the Audit staff noted that TDP failed to disclose debts and obligations owed to five vendors totaling \$26,236. In response to the Interim Audit Report recommendation, TDP amended its disclosure reports which materially⁵ corrected the public record. TDP provided no formal response to the Draft Final Audit Report.

The Commission approved a finding that TDP failed to disclose debts and obligations to vendors totaling \$26,236. (For more detail, see p. 16.)

⁵ Debt totaling \$5,881 was disclosed incorrectly as being incurred in 2015 instead of 2016.

Part IV

Commission Findings

Finding 1. Misstatement of Financial Activity

Summary

During audit fieldwork, a comparison of TDP's reported financial activity with its bank records revealed a misstatement of receipts and disbursements in calendar year 2015. Specifically, TDP understated its receipts and disbursements by \$148,395 and \$147,409, respectively. In response to the Interim Audit Report recommendation, TDP amended its disclosure reports correcting the misstatements for the 2015 calendar year. TDP provided no formal response to the Draft Final Audit Report.

Additionally, a comparison of TDP's bank activity with its original reports filed for 2015 and 2016 also revealed a material misstatement of receipt and disbursement activity. In response to the Interim Audit Report recommendation, TDP had no comments. TDP provided no formal response to the Draft Final Audit Report.

The Commission approved a finding that TDP understated receipts and disbursements by \$148,395 and \$147,409, respectively for calendar year 2015. Additionally, the Commission approved a finding that TDP understated receipts by \$1,362,191 and disbursements by \$1,377,720 on the original reports filed over the two-year period ending December 31, 2016.

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). 52 U.S.C. §30104(b)(1), (2), (3), (4) and (5).

Facts and Analysis

A. Misstatement of Financial Activity – Most Recent Reports Filed Prior to the Audit

1. Facts

During audit fieldwork, the Audit staff reconciled TDP's reported financial activity with its bank records for the calendar years 2015 and 2016. The reconciliation determined that TDP misstated receipts and disbursements for 2015. The following chart details the discrepancies between TDP's disclosure reports and bank activity. The succeeding paragraphs explain why the discrepancies occurred.

| 2015 Committee Activity | | | |
|--|-----------------|---------------------|--------------------------|
| | Reported | Bank Records | Discrepancy |
| Opening Cash on hand @ January 1, 2015 | \$12,577 | \$12,079 | \$498 Overstated |
| Receipts | \$714,262 | \$862,657 | \$148,395 Understated |
| Disbursements | \$659,107 | \$806,516 | \$147,409 Understated |
| Ending Cash on hand @ December 31, 2015 | \$67,732 | \$68,220 | \$488 Understated |

The understatement of receipts resulted from the following:

| | |
|--|--------------------------|
| • Contributions from individuals not reported | \$ 106,950 ⁶ |
| • Transfer from affiliated committee not reported | 43,500 |
| • Contribution from political committee not reported | 1,000 |
| • Unexplained difference | <u>(3,055)</u> |
| Net Understatement of Receipts | <u>\$ 148,395</u> |

The understatement of disbursements resulted from the following:

| | |
|---|--------------------------|
| • Transfers to Non-federal account not reported | \$ 105,000 |
| • Transfer to affiliated committee not reported | 43,500 |
| • Disbursement reported incorrectly | 115 |
| • Unexplained difference | <u>(1,206)</u> |
| Net Understatements of Disbursements | <u>\$ 147,409</u> |

2. Interim Audit Report & Audit Division Recommendation

At the exit conference, the Audit staff discussed the misstatements for calendar year 2015 with TDP representatives and provided schedules detailing the misstatements. TDP representatives did not provide any comments.

The Interim Audit Report recommended that, TDP amend its disclosure reports or file a Form 99 (Miscellaneous Electronic Submission) to correct the misstatements noted above. It was further recommended, that TDP reconcile the cash on hand in its most recently filed report to include these adjustments and correct any subsequent discrepancies.

3. Committee Response to Interim Audit Report

In response to the Interim Audit Report recommendation, TDP amended its disclosure reports to correct the misstatements for the 2015 calendar year.

⁶ Of these contributions not reported, \$105,000 represent a portion of the excessive contributions (see Finding 2) that were transferred timely without notification to the contributor, to the non-federal account.

4. Draft Final Audit Report

The Draft Final Audit Report acknowledged that TDP filed amended disclosure reports that corrected the misstatement of receipts and disbursements.

5. Committee Response to the Draft Final Audit Report

TDP provided no formal response to the Draft Final Audit Report.

Commission Conclusion

On August 30, 2019, the Commission considered the Audit Division Recommendation Memorandum in which the Audit staff recommended that the Commission find that TDP understated receipts and disbursements by \$148,395 and \$147,409, respectively for calendar year 2015.

The Commission approved the Audit staff's recommendation.

B. Misstatement of Financial Activity – Original Reports Filed

1. Facts

During audit fieldwork, in addition to examining TDP's most recent reports filed prior to audit notification, the Audit staff also compared TDP's originally filed reports with its bank records. The purpose of this additional reconciliation was to identify the degree to which TDP had misstated its original filings.

The Audit staff calculated that TDP understated its receipts by \$1,362,191 and disbursements by \$1,377,720 on the original reports filed over the two-year period ending December 31, 2016. These understatements in receipts and disbursements were primarily due to transfers, received from and made to, affiliated committees. In addition, these figures include the understatement of receipts (\$148,395) and disbursements (\$147,409) discussed in Section A above (Misstatement of Financial Activity – Most Recent Reports Filed Prior to the Audit). The latest amendments filed prior to the audit corrected the understatement of receipts and disbursements related to the transfers.

2. Interim Audit Report & Audit Division Recommendation

The Audit staff discussed the understatement of receipts and disbursements on TDP's original reports during the exit conference. TDP representatives did not provide any comments.

The Interim Audit Report recommended that TDP provide any additional comments it deemed necessary with respect to this matter.

3. Committee Response to Interim Audit Report

In response to the Interim Audit Report recommendation, TDP had no comments.

4. Draft Final Audit Report

The Draft Final Audit Report acknowledged that TDP did not provide any additional comments with respect to this matter.

5. Committee Response to the Draft Final Audit Report

TDP provided no formal response to the Draft Final Audit Report.

Commission Conclusion

On August 30, 2019, the Commission considered the Audit Division Recommendation Memorandum in which the Audit staff recommended that the Commission find that TDP understated receipts by \$1,362,191 and disbursements by \$1,377,720 on the original reports filed over the two-year period ending December 31, 2016.

The Commission approved the Audit staff's recommendation.

Finding 2. Receipt of Contributions in Excess of the Limit

Summary

During audit fieldwork, the Audit staff reviewed contributions from individuals to determine if any exceeded the contribution limit. This review indicated that TDP received apparent excessive contributions totaling \$166,450⁷. Errors totaling \$151,200⁸ occurred due to TDP not notifying contributors that the excessive portion of the contribution was transferred to the non-federal account. In response to the Interim Audit Report recommendation, TDP provided copies of letters to contributors, notifying them that the excessive portion of their contribution had been transferred to the non-federal account and offering the "option to request a refund", thus untimely resolving the excessive portion. For the remaining excessive contributions totaling \$15,250, TDP also notified contributors, via letter, that the excessive portion of their contribution had been "allocated" to the non-federal account and offered an "option to request a refund." TDP has not yet made the transfer to the non-federal account totaling \$15,000⁹, but reported the transfer as a debt on Schedule D (Debts and Obligations) and refunded \$250 to one contributor. TDP provided no formal response to the Draft Final Audit Report.

The Commission approved a finding that TDP received excessive contributions totaling \$166,450.

⁷ The sample projection amount of \$34,824 was removed by the Audit staff from this finding after further analysis.

⁸ This amount includes \$10,250 that was eligible for presumptive reattribution. However, instead of presumptively reattributing the excessive portion to another contributor, TDP transferred the funds to its non-federal account.

⁹ In June 2019, subsequent to the Draft Final Audit Report, TDP transferred the \$15,000 to the non-federal account.

Legal Standard.

A. Party Committee Limits. A party committee may not receive more than a total of \$10,000 per year from any one individual. This limit is shared by the state, district, and local party committees. 52 U.S.C. §30116(a)(1)(D) and 11 CFR §110.9.

B. Handling Contributions That Appear Excessive. If a committee receives a contribution that appears to be excessive, the committee must either:

- Return the questionable check to the donor; or
- Deposit the check into its federal account and:
 - Keep enough money in the account to cover all potential refunds or establish a separate account in a campaign depository for such contributions;
 - Keep a written record explaining why the contribution may be illegal;
 - Include this explanation on Schedule A if the contribution has to be itemized before its legality is established;
 - Seek a reattribution of the excessive portion, following the instructions provided in the Commission regulations (see below for explanation of reattribution); and
 - If the committee does not receive a proper reattribution within 60 days after receiving the excessive contribution, refund the excessive portion to the donor. 11 CFR §§103.3(b)(3), (4) and (5) and 110.1(k)(3)(ii)(B).

C. Joint Contributions. Any contribution made by more than one person, except for a contribution made by a partnership, must include the signature of each contributor on the check, money order, or other negotiable instrument or in a separate writing. A joint contribution is attributed equally to each donor unless a statement indicates that the funds should be divided differently. 11 CFR §110.1(k)(1) and (2).

D. Reattribution of Excessive Contributions. The Commission regulations permit committees to ask donors of excessive contributions (or contributions that exceed the committee's net debts outstanding) whether they had intended their contribution to be a joint contribution from more than one person and whether they would like to reattribute the excess amount to the other contributor. The committee must inform the contributor that:

- The reattribution must be signed by both contributors;
- The reattribution must be received by the committee within 60 days after the committee received the original contribution; and
- The contributor may instead request a refund of the excessive amount. 11 CFR §110.1(k)(3).

Within 60 days after receiving the excessive contribution, the committee must either receive the proper reattribution or refund the excessive portion to the donor. 11 CFR §§103.3(b)(3) and 110.1(k)(3)(ii)(B). Further, a political committee must retain written records concerning the reattribution in order for it to be effective. 11 CFR §110.1(l)(5).

Notwithstanding the above, any excessive contribution that was made on a written instrument that is imprinted with the names of more than one individual may be presumptively attributed among the individuals listed unless instructed otherwise by the contributor(s). The committee must inform each contributor:

- How the contribution was attributed; and
- The contributor may instead request a refund of the excessive amount. 11 CFR §110.1(k)(3)(B).

E. Receipt of Contributions. Organizations that are political committees under the Act, other than national party committees 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 that must comply with the requirements of the Act including the registration and reporting requirements of 11 CFR parts 102 and 104. Only funds subject to the prohibitions and limitations of the Act shall be deposited in such separate Federal account. 11 CFR §102.5(a).

Facts and Analysis

A. Facts

The Audit staff utilized sample testing and a review of other contributions not included in the sample population to identify apparent excessive contributions from individuals.

| Excessive Contributions-Testing Method | |
|---|------------------|
| High Dollar/Other Review - contribution error amount | \$166,450 |
| Total Amount of Excessive Contributions | \$166,450 |
| Reasons for Excessive Contributions | |
| Contributions transferred to the non-federal account without prior notification | \$151,200 |
| Contributions not resolved via signed reattribution letter, refund or transfer to the non-federal account | \$15,250 |
| Total Amount of Excessive Contributions | \$166,450 |

B. Additional Information

TDP did not maintain a separate account for questionable contributions. Based on its cash on hand at the end of the audit period (December 31, 2016), it appears that TDP did not maintain sufficient funds to make refunds of the remaining excessive contributions that had not been previously transferred to the non-federal account.

C. Interim Audit Report & Audit Division Recommendation

The Audit staff discussed this matter with TDP representatives at the exit conference and provided schedules of the apparent excessive contributions. In response to the exit conference, TDP representatives did not provide any comments and did not submit any additional documentation.

The Interim Audit Report recommended that TDP provide documentation demonstrating that these contributions were not excessive, or if excessive, were resolved in a timely manner. Absent such a demonstration, TDP should have sent letters to those contributors whose contributions were eligible for presumptive reattribution and/or refund any remaining excessive amounts that had not been previously transferred to the non-federal account.

D. Committee Response to Interim Audit Report

In response to the Interim Audit Report recommendation, TDP provided the following:

| Corrective Action Taken in Response to the Interim Audit Report | |
|--|-----------|
| Letters sent notifying contributors of transfer to the non-federal account – <i>Untimely</i> | \$151,200 |
| Excessive contribution refunded- <i>Untimely</i> | \$250 |
| Debt to non-federal account reported on Schedule D | \$15,000 |

Additional Information:

- For excessive contributions timely transferred to the non-federal account without notification totaling \$151,200
TDP provided copies of letters, dated February 21, 2019, notifying contributors that the excessive portion of their contribution had been previously “allocated” to the non-federal account and offering an option to request a refund or “alternative redesignation” of the excessive portion.
- For excessive contributions not resolved via transfer to the non-federal account or refund totaling \$15,250
TDP provided copies of notification letters sent to two contributors totaling \$15,250. The letters stated the excessive portion of their contribution had been “allocated” to the non-federal account and offered an option to request a refund. In response to the letters, one contributor requested a refund of \$250 excessive. Although, TDP has disclosed the refund to the contributor, it has not provided the Audit staff with documentation which demonstrates the check was negotiated (copy of the front and back of the negotiated check). TDP stated that it intends to transfer the remaining \$15,000 to the non-federal account. Until the transfer is made, TDP has disclosed this amount as debt on Schedule D.

The Audit staff concluded that TDP resolved the excessive contributions, albeit untimely.

E. Draft Final Audit Report

The Draft Final Audit Report acknowledged that TDP resolved the excessive contributions, albeit untimely.

F. Committee Response to the Draft Final Audit Report

TDP provided no formal response to the Draft Final Audit Report.

Commission Conclusion

On August 30, 2019, the Commission considered the Audit Division Recommendation Memorandum in which the Audit staff recommended that the Commission find that TDP received excessive contributions totaling \$166,450.

The Commission approved the Audit staff's recommendation.

Finding 3. Disclosure of Joint Fundraising Transfers

Summary

During audit fieldwork, the Audit staff reviewed receipts to verify the accuracy of the information disclosed on TDP's reports. TDP received net proceeds of \$3,113,531 from two joint fundraisers but did not itemize memo entries totaling \$1,509,766 on Schedule A (Itemized Receipts), as required. These memo entries represented the gross contributions from the original contributors. In response to the Interim Audit Report recommendation, TDP filed amended Schedules A itemizing the memo entries totaling \$1,509,766. TDP provided no formal response to the Draft Final Audit Report.

The Commission approved a finding that TDP failed to disclose memo entries which represented the gross contributions from the original contributors totaling \$1,509,766.

Legal Standard

A. Itemization of Contributions from Joint Fundraising Efforts. Participating political committees shall report joint fundraising proceeds in accordance with 11 CFR §102.17(c)(8) when such funds are received from the fundraising representative. 11 CFR §102.17(c)(3)(iii).

Each participating political committee reports its share of the net proceeds as a transfer-in from the fundraising representative and shall also file a memo Schedule A itemizing its share of gross receipts as contributions from the original contributors to the extent required under 11 CFR §104.3(a). 11 CFR §102.17(c)(8)(i)(B).

B. Itemization required. Political committees must itemize:

- Any contributions from an individual if it exceeds \$200 per calendar year either by itself or when aggregated with other contributions from the same contributor. 11 CFR §104.3(a)(4)(i); and
- Every contribution from any political committee, regardless of the amount. 52 U.S.C. §30104(b)(3)(A) and (B).

Facts and Analysis

A. Facts

During audit fieldwork, the Audit staff determined that TDP received a total of \$3,113,531 in net proceeds from joint fundraising activity; \$3,021,100 from Hillary Victory Fund (HVF) and \$92,431 from the Tennessee State Party Victory Fund (TVF). However, TDP did not itemize memo entries totaling \$1,509,766 on Schedules A (Itemized Receipts) from the HVF (\$1,423,722) and the TVF (\$86,044).

B. Interim Audit Report & Audit Division Recommendation

At the exit conference, the Audit staff discussed this matter with TDP representatives and provided schedules detailing the missing disclosure items. TDP representatives did not provide any comments.

The Interim Audit Report recommended that TDP file either amended Schedules A or Form 99 to itemize the required memo entries.

C. Committee Response to Interim Audit Report

In response to the Interim Audit Report recommendation, TDP filed amended Schedules A itemizing memo entries totaling \$1,509,766.¹⁰

D. Draft Final Audit Report

The Draft Final Audit Report acknowledged that TDP filed amended Schedules A itemizing the memo entries.

E. Committee Response to the Draft Final Audit Report

TDP provided no formal response to the Draft Final Audit Report.

Commission Conclusion

On August 30, 2019, the Commission considered the Audit Division Recommendation Memorandum in which the Audit staff recommended that the Commission find that TDP failed to disclose memo entries which represented the gross contributions from the original contributors totaling \$1,509,766.

The Commission approved the Audit staff's recommendation.

Finding 4. Recordkeeping for Employees

Summary

During audit fieldwork, the Audit staff determined that TDP did not maintain monthly payroll logs, as required, to document the percentage of time each employee spent in connection with a federal election. For 2015 and 2016, the Audit staff identified payments to TDP employees totaling \$409,900 for which TDP did not maintain monthly payroll logs. This consisted of payroll which was allocated with federal and non-federal

¹⁰ Of this amount, \$78,999 were not adequately disclosed on Schedule A as unitemized lump sum contributions from TVF.

funds. There was no payroll paid exclusively with non-federal funds. In response to the Interim Audit Report recommendation, TDP stated that it now has procedures in place to track the percentage of time employees spend on federal election activities. TDP provided no formal response to the Draft Final Audit Report.

The Commission approved a finding that TDP failed to maintain monthly payroll logs totaling \$409,900, as required, to document the percentage of time each employee spent in connection with a federal election.

Legal Standard

Maintenance of Monthly Logs. Committees must keep a monthly log of the percentage of time each employee spends in connection with a federal election. Allocations of salaries, wages, and fringe benefits are to be undertaken as follows:

- employees who spend 25 percent or less of their compensated time in a given month on federal election activities must be paid either from the federal account or have their pay allocated as administrative costs;
- employees who spend more than 25 percent of their compensated time in a given month on federal election activities must be paid only from a federal account; and
- employees who spend none of their compensated time in a given month on federal election activities may be paid entirely with funds that comply with State law. 11 CFR §106.7(d)(1).

Facts and Analysis

A. Facts

During audit fieldwork, the Audit staff reviewed disbursements for payroll. TDP did not maintain any monthly logs or equivalent records to document the percentage of time each employee spent in connection with a federal election. These logs are required to document the proper allocation of federal and non-federal funds used to pay employee salaries and wages. For 2015 and 2016, TDP did not maintain monthly logs for \$409,900 in payroll.¹¹ This amount consisted entirely of payroll which was reported on Schedule H4 (Disbursements for Allocated Federal and Non-Federal Activity) and paid with an allocation of federal and non-federal funds during the same month. There was no payroll paid exclusively with non-federal funds.

B. Interim Audit Report & Audit Division Recommendation

At the exit conference, the Audit staff discussed the payroll recordkeeping requirement with TDP representatives and provided schedules of the payroll transactions. TDP representatives did not provide any comments.

¹¹ This total does not include payroll for employees paid with 100 percent federal funds and reported as such (see Part I, Background, Commission Guidance, Request for Early Commission Consideration of a Legal Question, Page 1). Payroll amounts do not include fringe benefits.

For TDP employees that were paid with an allocation of federal and non-federal funds, the Interim Audit Report recommended that TDP:

- provide evidence that monthly time logs were maintained to document the percentage of time an employee spent in connection with a federal election; or
- provide and implement a plan to maintain monthly payroll logs in the future.

C. Committee Response to Interim Audit Report

In response to the Interim Audit Report recommendation, TDP stated that it now has procedures in place to track the percentage of time employees spend on federal activities. The Audit staff concludes that TDP did not maintain monthly logs for payroll totaling \$409,900.

D. Draft Final Audit Report

The Draft Final Audit Report acknowledged that TDP now has procedures in place to track the percentage of time employees spend on federal activities.

E. Committee Response to the Draft Final Audit Report

TDP provided no formal response to the Draft Final Audit Report.

Commission Conclusion

On August 30, 2019, the Commission considered the Audit Division Recommendation Memorandum in which the Audit staff recommended that the Commission find that TDP failed to maintain monthly payroll logs totaling \$409,900, as required, to document the percentage of time each employee spent in connection with a federal election.

The Commission approved the Audit staff's recommendation.

Finding 5. Reporting of Debts and Obligations

Summary

During audit fieldwork, the Audit staff noted that TDP failed to disclose debts and obligations owed to five vendors totaling \$26,236. In response to the Interim Audit Report recommendation, TDP amended its disclosure reports which materially¹² corrected the public record. TDP provided no formal response to the Draft Final Audit Report.

The Commission approved a finding that TDP failed to disclose debts and obligations to vendors totaling \$26,236.

Legal Standard

A. Continuous Reporting Required. A political committee must disclose the amount and nature of outstanding debts and obligations owed by or to the reporting committee until those debts are extinguished. 52 U.S.C. §30104(b)(8) and 11 CFR §§104.3(d) and 104.11(a).

¹² Debt totaling \$5,881 was disclosed incorrectly as being incurred in 2015 instead of 2016.

B. Separate Schedules. A political committee must file separate schedules for debts owed by or 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).

C. Itemizing Debts and Obligations.

- A debt of \$500 or less, not including rent, salary or other regularly reoccurring administrative expenses, 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.
- Regularly recurring administrative expenses, like rent, do not have to be treated as debts until payment is due.
- 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 reviewed TDP's disbursement records and disclosure reports for proper reporting of debts and obligations. This review identified debts owed to five vendors totaling \$26,236¹³ that were not reported on Schedule D. These vendors mainly provided research, fundraising consulting, rent, accounting services and software.

The Audit staff calculated the debts owed to the vendors based on the invoice date and the subsequent payment date. Debts were outstanding for periods ranging from 34 days to 564 days. TDP did not report any debt on Schedule D during the audit cycle.

B. Interim Audit Report & Audit Division Recommendation

The Audit staff discussed this matter at the exit conference and provided TDP representatives a schedule detailing the transactions requiring disclosure on Schedule D. TDP representatives did not provide any comments.

The Interim Audit Report recommended that TDP provide additional documentation demonstrating that these transactions were not obligations which required reporting on Schedule D. Absent such documentation, the Interim Audit Report recommended that TDP amend its reports or file a Form 99 to correctly disclose these debts and obligations.

C. Committee Response to Interim Audit Report

In response to the Interim Audit Report recommendation, TDP amended its disclosure reports which materially corrected the public record.

¹³ Each debt in this amount was counted only once even if it was required to be disclosed over multiple periods.

D. Draft Final Audit Report

The Draft Final Audit Report acknowledged that TDP filed amended disclosure reports that disclosed its debts and obligations, and materially corrected the public record.

E. Committee Response to the Draft Final Audit Report

TDP provided no formal response to the Draft Final Audit Report.

Commission Conclusion

On August 30, 2019, the Commission considered the Audit Division Recommendation Memorandum in which the Audit staff recommended that the Commission find that TDP failed to disclose debts and obligations to vendors totaling \$26,236.

The Commission approved the Audit staff's recommendation.