



FEDERAL ELECTION COMMISSION

WASHINGTON, D.C. 20463

February 21, 2003

**MEMORANDUM**

TO: Ron M. Harris  
Press Officer  
Press Office

FROM: Joseph F. Stoltz *JFS*  
Assistant Staff Director  
Audit Division

SUBJECT: Public Issuance of the Final Audit Report on California Cooperative Creamery Federal PAC of Dairy Farmers of America, Inc.

Attached please find a copy of the final audit report and related documents on California Cooperative Creamery Federal PAC of Dairy Farmers of America, Inc. that was approved by the Commission on February 4, 2003.

All parties involved have received informational copies of the report and the report may be released to the public on February 21, 2003.

Attachment as stated

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

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**REPORT OF THE AUDIT DIVISION**  
**ON**  
**CALIFORNIA COOPERATIVE**  
**CREAMERY FEDERAL PAC OF**  
**DAIRY FARMERS OF AMERICA, INC.**

Approved on February 4, 2003



**FEDERAL ELECTION COMMISSION**  
**999 E STREET, N.W.**  
**WASHINGTON, D.C.**

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**CALIFORNIA COOPERATIVE CREAMERY FEDERAL PAC OF  
DAIRY FARMERS OF AMERICA, INC.**

**TABLE OF CONTENTS**

	Page
Executive Summary	1
Final Audit Report	3
Background	3
Findings	5
Transmittal to Committee	9
Chronology	11



FEDERAL ELECTION COMMISSION  
WASHINGTON, D.C. 20463

**CALIFORNIA COOPERATIVE CREAMERY FEDERAL PAC OF DAIRY FARMERS  
OF AMERICA, INC.**

**EXECUTIVE SUMMARY**

California Cooperative Creamery Federal PAC of Dairy Farmers of America, Inc. (CCCF Dairy) registered with the Commission on October 9, 1990 as California Cooperative Creamery Federal Political Action Committee. It amended its Statement of Organization in December 1998 to change its name to California Cooperative Creamery Federal PAC of Dairy Farmers of America, Inc.

The audit was conducted pursuant to 2 U.S.C. §438(b), which states that the Commission may conduct audits of any political committee whose reports fail to meet the threshold level of compliance set by the Commission.

The audit findings summarized below were presented to CCCF Dairy at the completion of fieldwork on May 31, 2002 and later in the interim audit report. CCCF Dairy's responses to those findings are contained in the audit report.

**APPARENT PROHIBITED CONTRIBUTIONS** - 2 U.S.C. §441a(b). CCCF Dairy received contributions, totaling \$4,110, from 10 incorporated dairy ranches. The corporate status of each entity was verified with the respective Secretary of State

In response to the interim audit report, CCCF Dairy refunded the prohibited contributions from its non-federal account and provided copies of letters sent to the contributors and copies of the refund checks (front and back).

**ITEMIZATION OF RECEIPTS** - 2 U.S.C. §434(b)(3)(G). CCCF Dairy received \$10,654 in interest income during the audit period. Although the amount of interest income was reported on the appropriate Detail Summary Page, CCCF Dairy did not disclose the interest income on Schedule A for Line 17 (Itemized Receipts - Other Federal Receipts).

This matter was discussed with the Treasurer at the exit conference. Subsequent to the exit conference, CCCF Dairy amended its reports and disclosed interest income on the appropriate Schedules A.

**UNTIMELY TRANSMITTAL OF CONTRIBUTIONS BY COLLECTING AGENT – 11 CFR**

§§102.6(c)(1) and (4). During the period from January 1999 through July 2000 (19 months), Dairy Farmers of America, Inc. (DFA) was late issuing a check to CCCF Dairy on 5 occasions. The checks were issued between 9 and 348 days late.

In response to the interim audit report CCCF Dairy did not deny the untimely transmittal of contributions by DFA, but requested the Commission take into consideration that all relevant contributor information on the FEC reports were disclosed in a timely manner.

**FAILURE TO MAINTAIN AUTHORIZATION RECORDS** – 11 CFR §104.14(b)(1). Authorization records representing the dairy ranches' contribution to CCCF Dairy were not available for Audit staff review. Instead, DFA officials provided copies of the members' monthly milk statements. The statement did, in fact, document a deduction in favor of CCCF Dairy. However, they did not evidence an authorization for those deductions

In response to the interim audit report CCCF Dairy stated, "DFA was unable to locate CCCF Dairy authorization forms after an exhaustive research. However, in mitigation, DFA requests the FEC consider that CCCF members knew and authorized contributions as the amounts were itemized on the members' monthly milk statements."



FEDERAL ELECTION COMMISSION  
WASHINGTON, D.C. 20460

***REPORT OF THE AUDIT DIVISION ON  
CALIFORNIA COOPERATIVE CREAMERY FEDERAL PAC OF  
DAIRY FARMERS OF AMERICA, INC.***

**I. BACKGROUND**

**A. AUDIT AUTHORITY**

This report is based on an audit of California Cooperative Creamery Federal PAC of Dairy Farmers of America, Inc. (CCCF Dairy) undertaken by the Audit Division of the Federal Election Commission (the Commission) in accordance with the provisions of the Federal Election Campaign Act of 1971, as amended (the Act). The audit was conducted pursuant to Section 438(b) of Title 2 of the United States Code, which states, in part, that the Commission may conduct audits and field investigations of any political committee required to file a report under Section 434 of this title. Prior to conducting any audit under this subsection, the Commission shall 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.

**B. AUDIT COVERAGE**

The audit covered the period from January 1, 1999 through December 31, 2000. CCCF Dairy reported a beginning cash balance of \$136,654, total receipts of \$37,359, total disbursements of \$172,994, and an ending cash balance of \$1,019.

**C. COMMITTEE ORGANIZATION**

CCCF Dairy registered with the Commission on October 9, 1990 as California Cooperative Creamery Federal Political Action Committee. It amended its Statement of Organization in December 1998 to change its name to California Cooperative Creamery Federal PAC of Dairy Farmers of America, Inc.

The Treasurer of CCCF Dairy for the audit period was Joe Duarte. CCCF Dairy maintained its headquarters in Petaluma, CA.

To manage its financial activity, CCCF Dairy maintained two bank accounts. CCCF Dairy's receipts were comprised of 1,163 contributions from dairy ranches, totaling approximately \$26,500 and interest income totaling \$10,654. Disbursements totaled \$172,994. A volunteer performed accounting and recordkeeping

functions utilizing software called AS400. Neither this individual nor the treasurer had attended a Commission conference or seminar. CCCF Dairy did not file disclosure reports electronically.

#### **D. AUDIT SCOPE AND PROCEDURES**

The Audit included testing of the following general categories:

1. the receipt of contributions or loans in excess of the statutory limitations;
2. the receipt of contributions from prohibited sources, such as those from corporations or labor organizations (Finding II.A.);
3. proper disclosure of contributions from individuals, political committees and other entities, to include the itemization of contributions when required, as well as, the completeness and accuracy of the information disclosed (Finding II.B.);
4. proper disclosure of disbursements including the itemization of disbursements when required, as well as, the completeness and accuracy of the information disclosed;
5. proper disclosure of debts and obligations, including loans;
6. the accuracy of total reported receipts, disbursements and cash balances as compared to bank records;
7. adequate recordkeeping of transactions (Finding II.D.); and,
8. other audit procedures that were deemed necessary in the situation (Finding II.C.).

Unless specifically discussed below, no material non-compliance was detected. It should be noted that the Commission may pursue any of the matters discussed in this report in an enforcement action.

## **II. AUDIT FINDINGS AND RECOMMENDATIONS**

### **BACKGROUND**

Minutes of a September 8, 1999, meeting indicated approval of a merger between CCCF Dairy and the Dairy Farmers of America, Inc. – Dairy Educational Political Action Committee (DEPAC). On November 13, 2000, CCCF Dairy transferred a majority of its

cash on hand to DEPAC's federal (\$100,528) and non-federal (\$72,386) accounts and filed a termination report in July 2001.<sup>1</sup>

#### A. APPARENT PROHIBITED CONTRIBUTIONS

Section 441b(a) of Title 2 of the United States Code states, in part, that it is unlawful for any corporation to make a contribution or expenditure in connection with any election to federal office and that it is unlawful for any candidate, political committee or any other person knowingly to accept or receive any contribution prohibited by this section.

Section 103.3(b)(4) of Title 11 of the Code of Federal Regulations states, in part, that any contribution which appears to be illegal and which is deposited into a campaign depository shall not be used for any disbursements by the political committee until the contribution has been determined to be legal. The political committee must either establish a separate account in a campaign depository or maintain sufficient funds to make all such refunds.

All contributions received by CCCF Dairy were from dairy ranches. These dairy ranches are members of the Dairy Farmers of America cooperative (DFA). DFA purchases milk from the dairy ranches. Each dairy ranch receives a check accompanied by a milk statement from DFA. The milk statement reflects an apparent authorized deduction (\$10 to \$25) representing the dairy ranches' contribution to CCCF Dairy. As collecting agent, DFA was to forward a monthly check to CCCF Dairy along with all relevant contributor information.<sup>2</sup>

CCCF Dairy received contributions, totaling \$4,110, from 10 incorporated dairy ranches. The corporate status of each entity was verified with the respective Secretary of State.

It should be noted that CCCF Dairy maintained sufficient funds in its account to make the necessary refunds up to November 13, 2000. On that date, a majority of its cash on hand was transferred to DEPAC.

This matter was discussed at the exit conference. Verification of the corporate status of the entities was completed subsequent to the exit conference. A schedule was faxed to the Treasurer. The Treasurer confirmed receipt, but did not comment.

In the interim report the Audit staff recommended that CCCF Dairy provide documentation that demonstrated that the contributions were not from prohibited sources. Absent such documentation, CCCF Dairy was to refund the contributions to the contributors and provide evidence of such refunds (front and back of the negotiated refund checks).

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<sup>1</sup> CCCF Dairy did not receive any contributions after July 2000.

<sup>2</sup> See Finding II.C. - Untimely Transmittal of Contributions.



In response to the interim audit report, CCCF Dairy provided copies of the refund checks (fronts and backs). The refund checks were drawn on DEPAC's non-federal account.

As previously stated, CCCF Dairy transferred a majority of its cash on hand to DEPAC's federal (\$100,528) and non-federal (\$72,386) accounts and filed a termination report in July 2001. The amount transferred to DEPAC's non-federal account was more than sufficient to offset the dollar value of the refunds. Further, reports filed for DEPAC's non-federal account during the period subsequent to the transfer from CCCF Dairy and prior to the refunds, disclosed approximately \$3,900 in receipts and \$18,500 in disbursements. This indicates that funds received from CCCF Dairy were used to make the above refunds.

#### **B. ITEMIZATION OF RECEIPTS**

Section 434(b)(3)(G) of Title 2 of the United States Code requires that the reporting committee disclose the identification of each person who provides any dividend, interest, or other receipt to the reporting committee where the aggregate amount or value is in excess of \$200 within the calendar year, together with the date and amount of any such receipt.

CCCF Dairy received \$10,654 in interest income during the audit period. Although the amount of interest income was reported on the appropriate Detail Summary Page, CCCF Dairy did not disclose the interest income on Schedule A for Line 17 (Itemized Receipts – Other Federal Receipts).

This matter was discussed with the Treasurer at the exit conference. Subsequent to the exit conference, CCCF Dairy amended its reports and disclosed interest income on the appropriate Schedules A.

#### **C. UNTIMELY TRANSMITTAL OF CONTRIBUTIONS BY COLLECTING AGENT**

Section 102.6(c)(1) of Title 11 of the Code of Federal Regulations states, the separate segregated fund shall be responsible for ensuring that the recordkeeping, reporting and transmittal requirements are met.

Section 102.6(c)(4) of Title 11 of the Code of Federal Regulations states, the full amount of each contribution collected by a collecting agent on behalf of a separate segregated fund shall be transmitted to that fund within 10 or 30 days as required by 11 CFR 102.8.

Section 102.8(b)(1) of Title 11 of the Code of Federal Regulations states, every person who receives a contribution of \$50 or less for a political committee that is not an authorized committee shall forward such contributions to the treasurer of the political committee no later than 30 days after receipt.

CCCF Dairy should have received a monthly check from DFA, representing contributions from member dairy ranches. During the period from January 1999 through July 2000 (19 months), DFA was late issuing a check to CCCF Dairy on 5 occasions. The checks were issued between 9 and 348 days late. However, it should be noted that DFA submitted and CCCF Dairy disclosed all relevant contributor information timely.

In the interim audit report the Audit staff recommended CCCF Dairy demonstrate that the transmittal of the monthly checks were timely. CCCF Dairy also was to provide any information relevant to this matter.

In response to the interim audit report CCCF Dairy did not deny the untimely transmittal of contributions by DFA, but requested the Commission take into consideration that all relevant contributor information was disclosed in a timely manner.

**D. FAILURE TO MAINTAIN AUTHORIZATION RECORDS**

Section 104.14(b)(1) of the Title 11 of the Code of Federal Regulations states, in part, that each political committee or other person required to file any report or statement under this subchapter shall maintain all records relevant to such reports or statements. Records to be maintained with respect to the matters required to be reported, include bank records, vouchers, worksheets, receipts, bills and accounts, which shall provide in sufficient detail the necessary information and data from which the filed reports and statements may be verified, explained, clarified, and checked for accuracy and completeness.

As previously stated, CCCF Dairy received contributions from members of DFA via deductions from the proceeds of sales to DFA. Authorizations for those deductions were not available. In a written statement, the Director of Administration for DFA indicated:

“A search has been made for a written authorization from the members of the California Cooperative Creamery to authorize a deduction be made from their milk check to contribute to their Federal PAC. We have not been able to find such an authorization.”

“Now that the members of California Cooperatives Creameries has (sic) become part of Dairy Farmers of America, Inc. a Dairy Farmers DEPAC form would be used to document deductions from their milk checks for DEPAC contributions.”

A blank copy of the new membership authorization form was provided.

As an alternative, DFA officials provided copies of the members' monthly milk statements. The statement did, in fact, document a deduction in favor of CCCF Dairy. However, they do not evidence an authorization for those deductions.

In the interim audit report the Audit staff recommended that CCCF Dairy provide copies of all written authorizations. CCCF Dairy also was to provide any additional information relevant to this matter.

In response to the interim audit report CCCF Dairy stated, "DFA was unable to locate CCCF Dairy authorization forms after an exhaustive research. However, in mitigation, DFA requests the FEC consider that CCCF members knew and authorized contributions as the amounts were itemized on the members' monthly milk statements."



FEDERAL ELECTION COMMISSION  
WASHINGTON, D.C. 20543

February 10, 2003

Mr. Randy Pollack, Treasurer  
California Cooperative Creamery Federal  
PAC of Dairy Farmers of America, Inc.  
Livingston & Mattesich  
1201 K Street, Suite 1100  
Sacramento, CA 95814

Dear Mr. Pollack:

Attached, please find the Report of the Audit Division on California Cooperative Creamery Federal PAC of Dairy Farmers of America, Inc. The Commission approved this report on February 4, 2003.

The Commission approved Final Audit Report will be placed on the public record on February 18, 2003. Should you have any questions regarding the public release of this report, please contact the Commission's Press Office at (202) 694-1220.

Any questions you may have related to matters covered during the audit or in the report should be directed to Brenda Wheeler or Thomas Nurthen of the Audit Division at (202) 694-1200 or toll free at (800) 424-9530.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Stoltz".

Joseph F. Stoltz  
Assistant Staff Director  
Audit Division

Attachment as stated



## **CHRONOLOGY**

### **CALIFORNIA COOPERATIVE CREAMERY FEDERAL PAC OF DAIRY FARMERS OF AMERICA, INC.**

Audit Fieldwork	May 20, 2002 – May 31, 2002
Interim Audit Report to Committee	October 3, 2002
Response to the Interim Audit Report Received	November 5, 2002
Final Audit Report Approved	February 4, 2003