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FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

October 9, 2002

MEMORANDUM

TO: RON M. HARRIS
PRESS OFFICER
PRESS OFFICE

FROM: JOSEPH F. STOLTZ *JFS*
ASSISTANT STAFF DIRECTOR
AUDIT DIVISION

SUBJECT: PUBLIC ISSUANCE OF THE AUDIT REPORT ON
CHICAGO BOARD OPTIONS EXCHANGE, INC. PAC

Attached please find a copy of the audit report and related documents on Chicago Board Options Exchange, Inc. PAC, which was approved by the Commission on October 1, 2002.

All parties involved have received informational copies of the report and the report may be released to the public.

Attachment as stated

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

REPORT OF THE AUDIT DIVISION
ON
Chicago Board Options Exchange, Inc.
PAC

Approved October 1, 2002



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

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FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

A01-29

***REPORT OF THE AUDIT DIVISION
ON THE
CHICAGO BOARD OPTIONS EXCHANGE, INC. PAC***

I. BACKGROUND

A. AUDIT AUTHORITY

This report is based on an audit of the Chicago Board Options Exchange, Inc. PAC (CBOE), the separate segregated fund of the Chicago Board Options Exchange, Inc., undertaken by the Audit Division of the Federal Election Commission (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 the selected committees to determine if 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. During this period, CBOE reported a beginning cash balance of \$287,405; total receipts for the period of \$854,350; total disbursements for the period of \$544,500, and an ending cash balance of \$597,255.

C. COMMITTEE ORGANIZATION

CBOE registered with the Commission on August 1, 1978 as the Chicago Board Options Exchange PAC. On June 23, 1988, its name was changed to Chicago Board Options Exchange, Inc. PAC. The Treasurer for CBOE during the audit period was Mr. Alan J. Dean; he continues to serve in that capacity. CBOE maintains its headquarters in Chicago, Illinois.

To manage its financial activity, CBOE maintained one bank account during the audit period. It made 371 disbursements totaling \$563,921. These were mostly for contributions to candidate/committees. CBOE received approximately 775 contributions from individuals totaling \$807,711, interest of \$41,447, offsets to operating

expenditures of \$6,434, and a refund of a \$500 contribution CBOE made to a candidate¹. The contributions were collected through an annual fundraising drive that was limited to the connected organization (Chicago Board Options Exchange) membership. CBOE utilized common accounting software in 1999 and reports were prepared and filed by the connected organization's accounting staff. In 2000, CBOE changed to a custom designed campaign management application that was used to prepare and file its reports. Neither the Treasurer nor any of the CBOE staff have attended a Commission seminar.

D. AUDIT SCOPE AND PROCEDURES

The Audit included testing of the following general categories:

1. receipt of contributions or loans in excess of the statutory limitations;
2. receipt of contributions from prohibited sources, such as those from corporations or labor organizations;
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;
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. accuracy of total reported receipts, disbursements and cash balances as compared to bank records (see Finding II.);
7. adequate recordkeeping for transactions; and,
8. other audit procedures that were deemed necessary in the situation.

As part of the Commission's standard audit process, an inventory of CBOE records was conducted prior to the audit fieldwork to determine if its records were materially complete and in an auditable state. Based on our review of the records presented, it was concluded that they were materially complete and fieldwork began immediately.

¹ This figure for disbursements (\$563,921) differs from reported disbursements (\$544,500) by \$19,421. (see Finding II.) In addition, the sum of the receipt categories (\$856,092) differs from reported receipts (\$854,350) by \$1,742. This discrepancy is considered immaterial by the Audit staff.

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

II. AUDIT FINDING AND RECOMMENDATION - MISSTATEMENT OF FINANCIAL ACTIVITY

Section 434(b) of Title 2 of the United States Code states, in relevant part, that each report shall disclose the amount of cash on hand at the beginning of each reporting period, the total amount of all receipts, and the total amount of all disbursements for the reporting period and calendar year.

The Audit staff compared CBOE's reported figures with its bank activity and found that, for the period January 1, 2000, through December 31, 2000, CBOE had misstated its disbursements and ending cash on hand. CBOE did not maintain records to show the derivation of its reported amounts. Absent such records, the Audit staff could not identify all differences between bank activity and reported activity.

Total reported disbursements for calendar year 2000 were \$474,000. CBOE should have reported total disbursements of \$491,400. Therefore, disbursements were understated by \$17,400. This net understatement stemmed from CBOE's:

- failure to report 13 disbursements totaling \$24,500;
- reporting of disbursements totaling \$13,000 which had either been voided or were not supported by checks or debit memos from CBOE's bank account;
- failure to report bank fees associated with contributions made by credit card totaling \$4,650;
- and an unexplained understatement of \$1,250.

CBOE reported ending cash on hand of \$597,255 on December 31, 2000, an overstatement of \$17,686. The correct cash balance was determined to be \$579,569. The overstatement resulted from the misstatements detailed above, as well as from immaterial discrepancies in the reported figures for beginning cash on hand (January 1, 2000) and receipts.

During fieldwork, CBOE provided the Audit staff with a copy of an amendment for the 30-Day Post-General Election report (the amended Post-General report) for calendar year 2000. It disclosed \$11,000 of the \$24,500 unreported disbursements discussed above. The CBOE representative stated that this report had been filed with the Commission in 2001. Prior to the commencement of fieldwork the Audit staff had not located this report in Commission files.

At the exit conference, the Audit staff advised CBOE representatives of the misstatements noted above and explained that, upon their return to the Commission, they would determine if the amended Post-General report had been filed. If receipt of that

amended report could be confirmed, the misstatement finding would be adjusted accordingly in the interim audit report.

The Audit staff determined that, during 2001, CBOE and the Commission's Reports Analysis Division had corresponded by telephone and by mail in an attempt to resolve discrepancies on CBOE's disclosure reports for 2000. The Audit staff reviewed all filings made by CBOE during 2001 and made inquiries of the Reports Analysis Division concerning the amended Post-General report. No evidence was located that such an amendment had been filed and CBOE was so notified.

The interim audit report recommended that CBOE amend its reports by filing comprehensive Summary and Detailed Summary Pages for calendar year 2000 along with amended Schedules B (Itemized Disbursements) by reporting period.

In response to the interim audit report, CBOE filed amended reports that materially corrected the misstatements noted above.



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

A01-29

October 3, 2002

Mr. Alan J. Dean, Treasurer
Chicago Board Options Exchange, Inc. PAC
400 South LaSalle Street
Chicago, IL 60605


Dear Mr. Dean:

Attached please find the Report of the Audit Division on Chicago Board Options Exchange, Inc. PAC. The Commission approved the report on October 1, 2002.

The Commission approved Final Audit Report will be placed on the public record on October 8, 2002. Should you have any questions regarding the public release of the report, please contact the Commission's Press Office at (202) 219-4155.

Any questions you have related to matters covered during the audit or in the report should be directed to Henry Miller or Alex Boniewicz of the Audit Division at (202) 694-1200 or toll free at (800) 424-9530.

Sincerely,



Joseph F. Stoltz
Assistant Staff Director
Audit Division

Attachment as stated

CHRONOLOGY

CHICAGO BOARD OPTIONS EXCHANGE, INC. PAC

Audit Fieldwork	July 15 - July 26, 2002
Exit Conference	July 26, 2002
Final Audit Report Approved	October 1, 2002

