



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

June 24, 2004

MEMORANDUM

TO: PRESS OFFICE

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

SUBJECT: PUBLIC ISSUANCE OF THE FINAL AUDIT REPORT ON
LINDSEY GRAHAM FOR SENATE

Attached please find a copy of the final audit report and related documents on Lindsey Graham for Senate, which was approved by the Commission on June 14, 2004.

Informational copies of the report have been received by all parties involved 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
Web Manager



Report of the Audit Division on Lindsey Graham For Senate January 1, 2001 – December 31, 2002

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 Campaign (p. 2)

Lindsey Graham for Senate is the principal campaign committee for Lindsey Graham, Republican candidate for the U.S. Senate from the state of South Carolina and is headquartered in Seneca, SC. For more information, see chart on the Campaign Organization, p.2.

Financial Activity (p. 2)

- **Receipts**
 - From Individuals \$ 4,007,523
 - From Political Committees 1,680,296
 - Transfers from Authorized Committees 545,141
 - Other Receipts 69,045
 - **Total Receipts** \$ 6,302,005

- **Disbursements**
 - Operating Expenditures \$ 6,168,653
 - All Other Disbursements 93,180
 - **Total Disbursements** \$ 6,261,833

Findings and Recommendations (p. 3)

- Misstatement of Financial Activity (Finding 1)
- Disclosure of Transfers from Authorized Committees (Finding 2)
- Recordkeeping for Disbursements (Finding 3)

¹ 2 U.S.C. §438(b).

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Part I

Background

Authority for Audit

This report is based on an audit of Lindsey Graham for Senate (LGFS), 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 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.
7. Other committee operations necessary to the review.

Changes to the Law

On March 27, 2002, President Bush signed into law the Bipartisan Campaign Reform Act of 2002 (BCRA). The BCRA contains many substantial and technical changes to the federal campaign finance law. Most of the changes became effective November 6, 2002. Except for the period November 7, 2002, through December 31, 2002, the period covered by this audit pre-dates these changes. Therefore, the statutory and regulatory requirements cited in this report are primarily those that were in effect prior to November 7, 2002.

Part II

Overview of Campaign

Campaign Organization

Important Dates	Lindsey Graham For Senate
• Date of Registration	February 5, 2001
• Audit Coverage	January 1, 2001 – December 31, 2002
Headquarters	Seneca, South Carolina
Bank Information	
• Bank Depositories	4
• Bank Accounts	2 Checking, 2 Media and 2 Investment Accounts
Treasurer	
• Treasurer When Audit Was Conducted	Neil Byerley
• Treasurer During Period Covered by Audit	Neil Byerley
Management Information	
• Attended FEC Campaign Finance Seminar	Yes
• Used Commonly Available Campaign Management Software Package	Yes
• Who Handled Accounting and Recordkeeping Tasks	Paid Staff

Overview of Financial Activity (Audited Amounts)

Cash on hand @ January 1, 2001	\$ 0
○ From Individuals	4,007,523
○ From Political Committees	1,680,296
○ Transfers from Authorized Committees	545,141
○ Other Receipts	69,045
Total Receipts	\$ 6,302,005
○ Operating Expenditures	6,168,653
○ Other Disbursements	93,180
Total Disbursements	\$ 6,261,833
Cash on hand @ December 31, 2002	\$ 40,172

Part III

Summaries

Findings and Recommendations

Finding 1. Misstatement of Financial Activity

LGFS had misstatements of reported activity in 2001 and 2002. In 2001, receipts and the ending cash balance were overstated and disbursements were understated. In 2002, misstated activity included an overstatement of the ending cash balance. In response to the interim audit report, LGFS filed amended reports that corrected the misstatement of reported activity.

(For more detail, see p. 4)

Finding 2. Disclosure of Transfers from Authorized Committees

The review of all transfers from authorized committees identified eight transfers totaling \$510,839 that were not adequately disclosed. Errors included incorrect names of the transferring committees and incorrect amounts. In response to the interim audit report, LGFS filed amended Schedules A to correct this matter.

(For more detail, see p. 6)

Finding 3. Recordkeeping for Disbursements

LGFS lacked documentation, such as invoices, receipted bills or canceled checks, for approximately 13% of operating expenditures tested in our sample. In response to the interim audit report, LGFS provided documentation to correct this matter.

(For more detail, see p. 8)

Part IV

Findings and Recommendations

Finding 1. Misstatement of Financial Activity

Summary

LGFS had misstatements of reported activity in 2001 and 2002. In 2001, receipts and the ending cash balance were overstated and disbursements were understated. In 2002, misstated activity included an overstatement of the ending cash balance. In response to the interim audit report, LGFS filed amended reports that corrected the misstatement of reported activity.

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; and
- The total amount of disbursements for the reporting period and for the calendar year. 2 U.S.C. §434(b)(1), (2) and (4).

Background

On November 7, 2000, the Candidate was elected to the U.S. House of Representatives from the state of South Carolina, Third Congressional District. The Candidate's principal campaign committee was the Committee to Elect Lindsey Graham (the House Committee). In 2002 the Candidate only sought election to the U.S. Senate. However, the House Committee's checking account remained active through May 31, 2001, receiving \$73,124 in receipts and making \$73,124 in disbursements. These 2001 transactions related to LGFS. The receipts and disbursements were disclosed on LGFS's disclosure reports. During 2001, LGFS received four transfers from the House Committee checking account as well as the transfer of the balance of the House Committee investment account. The amount of the transfers was overstated, adding to the 2001 misstatement. The over-reporting, along with other disclosure issues relating to transfers from authorized committees, are addressed in Finding 2.

Facts and Analysis

The Audit staff reconciled reported financial activity to the bank records and determined that LGFS misstated receipts, disbursements and cash on hand in calendar year 2001. LGFS also misstated cash on hand in calendar year 2002. The following charts detail the discrepancies between LGFS's disclosure reports and bank records.

Comparison of Disclosure Reports and Bank Records

2001 Campaign Activity			
	Reported	Bank Records	Discrepancy
Opening Cash Balance @ 1/1/01	\$0	\$0	\$0
Receipts	\$3,096,269	\$2,999,228	\$97,041 Overstatement
Disbursements	\$1,019,084	\$1,086,148	\$67,064 Understatement
Ending Cash Balance @ 12/31/01	\$2,077,185	\$1,913,080	\$164,105 Overstatement

Explanation of Discrepancies

Receipts – 2001

The overstatement of receipts was the result of the following:

- Over-reported Transfers from Authorized Committees² - 42,250
- Reported March 9 Receipts that were not Deposited. These were disclosed on LGFS's receipt database, but they could not be traced to the bank deposits. - 22,949
- Overstated Interest Income - 7,885
- Unexplained Differences. Since LGFS did not provide workpapers to demonstrate how it derived its reported amounts, the Audit staff was unable to explain this discrepancy. - 23,957
- **Net Overstatement of 2001 Receipts** \$97,041

Disbursements – 2001

The understatement of disbursements was the result of the following:

- Disbursements not reported
 - a. 44 items that cleared bank, and were not on the disbursements database + 41,388
 - b. 23 items that cleared bank and were on the disbursements database + 44,748
- Fees on credit card contributions not reported. Credit card contributions were shown on LGFS's bank statements net of processing fees. The processor provided a listing of and LGFS reported gross receipts. However, the fees were not reported. + 3,350
- Reported disbursements that did not clear bank accounts. Most of these items were either voided disbursements or memos for credit card expenditures that were improperly disclosed as actual disbursements. - 21,938
- Disbursement amounts disclosed incorrectly (net) - 349
- Unexplained Differences - 135
- **Net Understatement of 2001 Disbursements** \$ 67,064

² See Finding 2.

Comparison of Disclosure Reports and Bank Records

2002 Campaign Activity			
	Reported	Bank Records	Discrepancy
Opening Cash Balance @ 1/1/02	\$2,077,185	\$1,913,080	\$164,105 Overstatement
Receipts	\$3,241,291	\$3,302,777	\$61,486 Understatement
Disbursements	\$5,194,484	\$5,175,685	\$18,799 Overstatement
Ending Cash Balance @ 12/3/02	\$123,992	\$40,172	\$83,820 Overstatement

Explanation of Discrepancies

Closing Cash on Hand:

LGFS overstated the closing cash on hand balance at December 31, 2002 of \$40,172 by \$83,820. The misstatement was the result of the beginning cash on hand overstatement of \$164,105 and several reporting discrepancies in receipts and disbursements during the year.

At the exit conference, the Audit staff informed the LGFS representative of these misstatements and provided relevant workpapers. The representative stated that amendments would be filed to correct this matter.

Interim Audit Report Recommendation and Committee Response

The Audit staff recommended that LGFS file amended reports for each reporting period, including amended Schedules A and B as appropriate, to correct the misstatements noted above. In response to the Interim Audit Report, LGFS filed amended reports for 2001 and 2002 to correct its misstatement of financial activity.

Finding 2. Disclosure of Transfers from Authorized Committees

Summary

The review of all transfers from authorized committees identified eight transfers totaling \$510,839 that were not adequately disclosed. Errors included incorrect names of the transferring committees and incorrect amounts. In response to the interim audit report, LGFS filed amended Schedules A to correct this matter.

Legal Standard

Required Information for Transfers from Authorized Committees. For each itemized transfer from an authorized committee, the committee must provide the following information:

- The committee's full name and address (including zip code);
- The date of receipt (the date the committee received the contribution);
- The amount of the contribution; and
- The election cycle-to-date total of all transfers from the same committee. 11 CFR §§100.12 and 104.3(a)(4) and 2 U.S.C. §434(b)(3)(C).

No Limits on Transfers between a Candidate's Previous Federal Campaign Committee and His or Her Current Federal Campaign Committee. Transfers of funds between a candidate's previous Federal campaign committee and his or her current Federal campaign committee are unlimited, provided that the candidate is not a candidate for more than one Federal office at the same time, and provided that the funds transferred are not composed of contributions that would be in violation of the Act. 11 CFR §110.3(a)(4).

Facts and Analysis

The review of transfers from authorized committees identified eight transfers totaling \$510,839 that were not adequately disclosed. For all eight of these items, the name of the transferring committee was disclosed as Lindsey Graham for Senate instead of the actual committees that made the transfers. Five of the eight transfers received were from the House Committee. In addition to the disclosure of the incorrect names, three of the House Committee transfers were disclosed with the incorrect amounts, causing the 2001 receipts to be overstated by \$42,251. See Finding 1. The other three transfers were from authorized joint fundraising committees. One of these transfers was also disclosed with the incorrect amount.

At the exit conference, the Audit staff advised the LGFS representative of these matters and provided a schedule detailing the errors. The representative stated that amendments would be filed to correct the matter.

Interim Audit Report Recommendation and Committee Response

The Audit staff recommended that LGFS file amended Schedules A to correct the disclosure of the transactions noted above. In response LGFS filed amended Schedules A, albeit untimely, to correct this matter.

Finding 3. Recordkeeping for Disbursements

Summary

LGFS lacked documentation, such as invoices, receipted bills or canceled checks, for approximately 13% of operating expenditures tested in our sample. In response to the interim audit report, LGFS provided documentation to correct this matter.

Legal Standard

Required Records for Disbursements. For each disbursement, the treasurer of a political committee must keep records on the:

- Amount;
- Date;
- Name and address of the payee³;
- Purpose (a brief description of why the disbursement was made—see below); and
- If the disbursement was made on behalf of a candidate, the candidate's name and the office sought by the candidate.
- If the disbursement was in excess of \$200, the records must include a receipt or invoice from the payee, or a cancelled check or share draft to the payee. If the disbursement was by credit card, the record must include the monthly statement or customer receipt and the cancelled check used to pay the credit card bill. 2 U.S.C. §432(c) and 11 CFR §§102.9(b) and 104.3(b)(4)(i).

Preserving Records and Copies of Reports. The treasurer of a political committee must preserve all records and copies of reports for 3 years after the report is filed. 2 U.S.C. §432(d).

Facts and Analysis

Based on a sample review of disbursements, LGFS did not maintain a canceled check, invoice or receipt for approximately 13% of its operating expenditures. The majority of the errors were either in-kind contributions for which there was no documentation or items that were only supported by an entry on the bank statements. The items which were supported only by bank statement entries were not reported on the LGFS disclosure reports. See Finding 1.

At the exit conference, the Audit staff advised the LGFS representative of these matters. The representative stated that documentation would be obtained to correct this matter.

³ The payee is usually the person providing the goods or services to the committee. In the case of travel advances, however, the payee is the person receiving the advance. 11 CFR §102.9(b)(2).

Interim Audit Report Recommendation and Committee Response

The Audit staff recommended LGFS review its disbursement records and identify those payments in amounts greater than \$200 for which there is no canceled check, invoice or bill and obtain and submit the required documentation for the Audit staff's review. In response to the recommendation, LGFS provided documentation that corrected most of the recordkeeping errors.