



FEDERAL ELECTION COMMISSION  
WASHINGTON, D.C. 20463

FEDERAL ELECTION  
COMMISSION  
SECRETARIAT

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March 27, 2006

**MEMORANDUM**

**To:** The Commissioners

**Through:** Robert J. Costa  
Acting Staff Director

*RC*

**From:** Joseph F. Stoltz  
Assistant Staff Director  
Audit Division

*JFS*

Wanda J. Thomas  
Audit Manager

*WJT*

Pat Sheppard  
Lead Auditor

*Pat for P*

**Subject:** Final Audit Report on CWA COPE Political Contributions Committee

Attached for your approval is the subject report. This report was originally circulated to your office on December 19, 2005 and subsequently withdrawn pending consideration of the Commission's policy regarding records to be maintained by PACs that receive contributions by payroll deduction. This report differs from the report originally circulated in that Finding 4, now titled, Maintenance of Contributor Records for Contributions Received By Payroll Deduction, has been revised to reflect the Commission's decision to accept records other than Payroll Deduction Authorizations. In the CWA-COPE instance, it had listings of contributions that accompanied the transmittal of contributions for 88% of the contributions. These listings were provided by the union member's employers and were not created by CWA-COPE.

**Recommendation**

The Audit staff recommends that the report be approved.

This report is being circulated on a tally vote basis. Should an objection be received, it is recommended that the report be considered at the next regularly scheduled open session. If you have any questions, please contact Pat Sheppard or Wanda Thomas at 694-1200.

Attachment: Report of the Audit Division on CWA COPE Political Contributions Committee (A03-51)

**AGENDA ITEM**  
For Meeting of: 4-20-06



# Report of the Audit Division on the CWA-COPE Political Contributions Committee

January 1, 2002 – 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.<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 Committee (p. 2)

The CWA-COPE Political Contributions Committee is the separate segregated fund (SSF) of the Communication Workers of America Union and is headquartered in Washington, D.C. For more information, see chart on the Committee Organization, p. 2.

## Financial Activity (p. 2)

• <b>Receipts</b>	
○ Contributions from Individuals	\$ 3,827,673
○ Refunds of Contributions made to Federal/Other Political Committees	69,576
○ Transfers from Affiliates	574,087
○ Other Receipts	34,336
○ <b>Total Receipts</b>	<b>\$ 4,505,672</b>
• <b>Disbursements</b>	
○ Operating Expenditures	\$ 100,162
○ Transfers to Affiliates	38,438
○ Contributions to Federal Candidates/Committees	2,027,500
○ Independent Expenditures	10,000
○ Contribution Refunds	19,183
○ Contributions to State/Local Candidates/Committees	1,805,858
○ Other Disbursements	8,242
○ <b>Total Disbursements</b>	<b>\$4,009,383</b>

## Findings and Recommendations (p. 3)

- Misstatement of Financial Activity (Finding 1)
- Disclosure of Operating Expenditures (Finding 2)
- Failure to Itemize Transfers (Finding 3)
- Maintenance of Contributor Records for Contributions Received By Payroll Deduction (Finding 4)

<sup>1</sup> 2 U.S.C. §438(b).

# **Report of the Audit Division on the CWA-COPE Political Contributions Committee**

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January 1, 2001 – December 31, 2002



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# **Part I**

## **Background**

### **Authority for Audit**

This report is based on an audit of the CWA-COPE Political Contributions Committee (CWA-COPE), 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**

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 6, 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 those that were in effect prior to November 6, 2002.

## Part II

### Overview of Committee

#### Committee Organization

	CWA-COPE Political Contributions Committee
<b>Important Dates</b>	
• Date of Registration	04/07/1972
• Audit Coverage	January 1, 2001 – December 31, 2002
<b>Headquarters</b>	Washington, DC
<b>Bank Information</b>	
• Bank Depositories	1
• Bank Accounts	1 Checking & 1 Money Market
<b>Treasurer</b>	
• Treasurer When Audit Was Conducted	Barbara J. Easterling
• Treasurer During Period Covered by Audit	Barbara J. Easterling
<b>Management Information</b>	
• 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)

<b>Cash on hand @ January 1, 2001</b>	<b>\$ 695,629</b>
○ Contributions from Individuals	3,827,673
○ Refunds of Contributions made to Federal/Other Political Committees	69,576
○ Transfers from Affiliates	574,087
○ Other Receipts	34,336
<b>Total Receipts</b>	<b>\$ 4,505,672</b>
○ Operating Expenditures	100,162
○ Transfers to Affiliates	38,438
○ Contributions to Federal Candidates/Committees	2,027,500
○ Independent Expenditures	10,000
○ Contribution Refunds	19,183
○ Contributions to State/Local Candidates/Committees	1,805,858
○ Other Disbursements	8,242
<b>Total Disbursements</b>	<b>\$ 4,009,383</b>
<b>Cash on hand @ December 31, 2002</b>	<b>\$ 1,191,918</b>

## **Part III**

### **Summaries**

#### **Findings and Recommendations**

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

A comparison of CWA-COPE's reported figures with its bank records revealed that it misstated beginning cash on hand at January 1, 2001. The Audit staff recommended that CWA-COPE amend its report and subsequent reports to correct the cash on hand balance. Amended reports were not filed with the response. However, CWA-COPE stated that the amendments would be filed. (For more details, see p. 4)

##### **Finding 2. Disclosure of Operating Expenditures**

Operating expenditures totaling \$46,708, or 53% of those itemized on Schedule B, (Itemized Disbursements), lacked a purpose or had an inadequate purpose for the expenditure. The Audit staff recommended that CWA-COPE file amended reports to provide the omitted purposes and to clarify the inadequate purposes. CWA-COPE responded that the amended reports will be filed on or about January 10, 2006. (For more detail, see p. 5)

##### **Finding 3. Failure to Itemize Transfers**

CWA-COPE failed to itemize a transfer to the non-federal account totaling \$9,838 or 26% of transfers to affiliated committees. The Audit staff recommended that CWA-COPE file an amended report to disclose the transfer. On or about January 10, 2006, CWA-COPE will file amended reports to itemize the transfer. (For more detail, see p. 6)

##### **Finding 4. Maintenance of Contributor Records for Contributions Received By Payroll Deduction**

The Audit staff conducted a sample review of contributions received by payroll deduction. Such contributions are received via lump sums transmitted by employers. The sample included only those transmittals for which detailed contributor information was available; 88% of the amount contributed by payroll deduction. The Audit staff determined that Payroll Deduction Authorization forms (PDAs) were not available for approximately 62% of the contributors sampled. The interim audit report recommended that CWA-COPE demonstrate that it had maintained the PDAs or provide a description of policy and procedural changes implemented to ensure that such authorizations are obtained and maintained in the future. Subsequent to issuing the interim audit report, the Commission determined that documents other than PDAs can be accepted to verify contributions received by payroll deduction. The Commission determined that the contribution listings noted above, provided by the contributors' employers, satisfy the requirement to maintain records from which the reports filed may be verified.<sup>2</sup> There remains 12% of the contributions received through payroll deduction that are not adequately documented. (For more detail, see p. 7)

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<sup>2</sup> See "Clarification of Commission Policy Regarding Retention of PDAs" on page 12.

## Part IV

# Findings and Recommendations

### Finding 1. Misstatement of Financial Activity

#### Summary

A comparison of CWA-COPE's reported figures with its bank records revealed that it misstated beginning cash on hand at January 1, 2001. The Audit staff recommended that CWA-COPE amend its report and subsequent reports to correct the cash on hand balance. Amended reports were not filed with the response. However, CWA-COPE stated that the amendments would be filed.

#### 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.
- Certain transactions that require itemization on Schedule A or Schedule B. 2 U.S.C. §434(b)(1), (2), (3), (4), and (5).

#### Facts and Analysis

The Audit staff's reconciliation of CWA-COPE's reported financial activity to its bank records for the period January 1, 2001 through December 31, 2002; indicated their beginning cash on hand was overstated. The misstatement was apparently a result of prior period transactions and was carried forward to subsequent reports.

2001 Activity			
	Reported	Bank Records	Discrepancy
Opening Cash Balance @ January 1, 2001	\$834,478	\$695,628	\$138,850 Overstated

At the exit conference, CWA-COPE officials had no explanation for the misstatement. They stated that they would amend the reports as necessary.

#### Interim Audit Report Recommendation and Committee Response

The Audit staff recommended that CWA-COPE provide an explanation for the discrepancy and file amended reports to correct the cash on hand. CWA-COPE responded that they were unable to determine why the discrepancy occurred and they had no information to suggest that the error was attributable to anything more than inadvertence and inadequate accounting system. Amended reports were not filed with the response. However, CWA-COPE stated that it would amend all reports for the audit period so that the cash balances conform with the bank records as of January 2, 2001, as



well as reflect the correction in the December 2005 Monthly Report filed on December 20, 2005.

## **Finding 2. Disclosure of Operating Expenditures**

### **Summary**

Operating expenditures totaling \$46,708, or 53% of those itemized on Schedule B (Itemized Disbursements) lacked a purpose or had an inadequate purpose for the expenditure. The Audit staff recommended that CWA-COPE file amended reports to provide the omitted purposes and to clarify the inadequate purposes. CWA-COPE responded that the amended reports will be filed on or about January 10, 2006.

### **Legal Standard**

**A. Reporting Operating Expenditures.** When operating expenditures to the same person exceed \$200 in a calendar year, the committee must report the:

- Amount;
- Date when the expenditures were made;
- Name and address of the payee; and
- Purpose (a brief description of why the disbursement was made—see below). 2 U.S.C. §434(b)(5)(A) and 11 CFR §104.3(b)(3)(i).

### **B. Examples of Purpose.**

- Adequate Descriptions. Examples of adequate descriptions of “purpose” include the following: dinner expenses, media, salary, polling, travel, party fees, phone banks, travel expenses, travel expense reimbursement, catering costs, loan repayment, or contribution refund. 11 CFR §104.3(b)(3)(i)(B).
- Inadequate Descriptions. The following descriptions do not meet the requirement for reporting “purpose”: advance, Election Day expenses, other expenses, expense reimbursement, miscellaneous, outside services, get-out-the-vote, and voter registration. 11 CFR §104.3(b)(3)(i)(B).

### **Facts and Analysis**

A 100% review of operating expenditures itemized on Schedule B revealed that for 40 of the 60 expenditures, either no purpose was disclosed or the purpose disclosed was inadequate, such as Voter Registration, Operating Expense or GOTV. The errors represent 53% of the amount of itemized operating expenditures or \$46,708.

At the exit conference, a CWA-COPE staff member stated that the instructions for filling out Schedule B did not give much help in determining what an adequate or inadequate purpose was. They requested a list of all the inadequate purposes so that they could correct them. The Audit staff explained to CWA-COPE that the purposes that were considered inadequate were those listed in the exit conference outline which was given to CWA-COPE at the beginning of the meeting.

**Interim Audit Report Recommendation and Committee Response**

The Audit staff recommended that CWA-COPE file amended reports to clarify the inadequate purposes and provide the omitted purposes. As to the omitted purposes, CWA-COPE acknowledged that it was an error to list disbursements without specifying any purpose. As to the inadequate purposes, CWA-COPE acknowledged that “HQ” and “Operating Expenses” are inadequate under the applicable regulation, 11 C.F.R. §104.3(b)(3)(i)(B). However, CWA-COPE questioned the logic behind some of the distinctions in the regulations concerning what is, and what is not, an adequate purpose. Nonetheless, CWA-COPE stated that both the omitted and inadequate purposes were inadvertent and not a deliberate act and that amended reports will be filed on or about January 10, 2006. CWA-COPE further stated that although the three year record-keeping period has expired, they will use their best effort to determine the missing information from available records.

**Finding 3. Failure to Itemize Transfers****Summary**

CWA-COPE failed to itemize a transfer to its non-federal account totaling \$9,838 or 26% of transfers to affiliated committees. The Audit staff recommended that CWA-COPE file an amended report to disclose the transfer. CWA-COPE responded that the amended reports will be filed on or about January 10, 2006.

**Legal Standard**

**Itemizing Transfers to Affiliated Committees.** Political committees other than authorized committees must itemize all transfers (i.e., the full name, address, date, amount, and purpose) regardless of amount to other political committees. 11 CFR §104.3(b)(3).

**Facts and Analysis**

A 100% review of disbursements made by CWA-COPE revealed that they failed to itemize, a wire transfer in the amount of \$9,838 to its non-federal account. The transfer represents approximately 26% of the amount of all transfers to related committees. CWA-COPE officials had no explanation for this omission.

**Interim Audit Report Recommendation and Committee Response**

The Audit staff recommended that CWA-COPE file an amended report to disclose the transfer. CWA-COPE acknowledged that it failed to itemize the transfer. It was further stated that the omission was not a deliberate act and an amended report will be filed on or about January 10, 2006.

## **Finding 4. Maintenance of Contributor Records for Contributions Received by Payroll Deduction**

The Audit staff conducted a sample review of contributions received by payroll deduction. Such contributions were received via lump sums transmitted by employers. The sample included only those transmittals for which detailed contributor information was available; 88% of the amount contributed by payroll deduction. The Audit staff determined that Payroll Deduction Authorization forms (PDAs) were not available for approximately 62% of the contributors sampled. The interim audit report recommended that CWA-COPE demonstrate that it had maintained the PDAs or provide a description of policy and procedural changes implemented to ensure that such authorizations are obtained and maintained in the future. Subsequent to issuing the interim audit report, the Commission determined that documents other than PDAs can be accepted to verify contributions received by payroll deduction. The Commission determined that the contribution listings noted above, provided by the contributors' employers, satisfy the requirement to maintain records from which the reports filed may be verified. There remains 12% of the contributions received through payroll deduction that are not adequately documented.

### **Legal Standard**

**Recordkeeping.** Each political committee or other person required to file any report or statement under this subchapter shall maintain all records relevant to such reports and 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. One form of record for contributions that a separate segregated fund established pursuant to Part 114 of the Commission's rules may use is copies of Payroll Deduction Authorizations (PDA's) for each individual who makes any contributions(s) via automatic payroll deduction. *See, e.g.* MUR 4955 (Metropolitan Life).

### **Background on Committee Receipt Records**

Contributions received by CWA-COPE were made through payroll deduction or one-time donations from members. According to CWA-COPE's Counsel there are approximately 2,000 bargaining agreements within CWA and approximately 80% have a payroll deduction option. The principal methods of transmission of these contributions to CWA-COPE were by wire transfer or check from employers along with a list of contributors and the date and amount of contribution. The amounts transmitted were either received directly by CWA-COPE or by Union locals which in turn, transmitted the funds to CWA-COPE. Employers transmitted these contributions either by pay period, monthly, or quarterly. According to CWA-COPE's Counsel, the PDAs were not maintained at the national office (with the exception of national office employees), but rather were maintained by the union local and/or the employer.

In accordance with Commission policy at the time, the audit notification letter, informed CWA-COPE that it was required to:

- Maintain PDAs for each member who made contributions via payroll deduction. If CWA-COPE chose to maintain those records at the various union locals, it was necessary to assemble the PDAs at a central location and in an auditable state for Audit staff review; and,
- Provide documentation to demonstrate the contributions that were transmitted by employers and collecting agents were timely transmitted and deposited.

In a letter to the Audit staff, CWA-COPE's Counsel explained CWA-COPE's position regarding the requirement that they maintain or ensure the maintenance of all PDAs relating to member contributions that are reflected on its 2001 and 2002 Forms 3X (Report of Receipts and Disbursements for Other than Authorized Committee). He stated: "It is our understanding that the applicable law imposes no such requirement." In addition, Counsel stated that, while CWA-COPE stood ready to cooperate with the Commission's audit, he wished to express concern about any specific request to locate and provide PDAs. As requested by the Audit staff, CWA-COPE would provide auditors with access to records that show the sources of all payroll-deducted contributions in 2001 and 2002, including transmittal documents from employers of contributors, the identities of the contributors, the sums they contributed and the dates they did so.

The Audit staff provided CWA-COPE with a list of individuals and requested that CWA-COPE provide copies of PDAs for each individual on the list. Fieldwork was suspended and CWA-COPE was allotted time to gather the necessary records. Fieldwork resumed shortly after expiration of the allotted time.

### **Facts and Analysis**

CWA-COPE received contributions from individuals totaling \$3,827,673. The Audit staff conducted a sample review of transmittals from employers and local unions received during the audit period to determine if PDAs were available for contributors whose contributions were made by payroll deduction. The sample included only those transmittals supported by contributor lists (\$3,384,475). The review indicated that for approximately 62% of the sample items tested, the related PDAs were not available.

At the exit conference, the Audit staff advised CWA-COPE representatives of this matter. One CWA-COPE representative stated that the majority of the PDAs were housed with the locals or employers and the employers are not very cooperative with the unions. Another CWA-COPE representative stated that it was difficult to get information from the locals and because CWA-COPE is a communications entity, it is difficult to keep track of where the PDAs are since there have been a lot of mergers between the communications entities (i.e. Verizon, Bell Atlantic, etc.).

### **Interim Audit Report Recommendation and Committee Response**

The Audit staff recommended that CWA-COPE demonstrate its compliance, provide any other comments it may have relevant to this matter and provide a description of policy and procedural changes implemented to ensure that such authorizations are obtained and

maintained in the future. Once these procedures were in place, the Audit staff would verify that they are adequate to ensure compliance via follow-up fieldwork.

In the response CWA-COPE's Counsel reiterated his opinion that the law does not require the national office to maintain the PDAs. Counsel stated that in spite of its position CWA-COPE did all that was possible to retrieve copies of the requested PDAs executed by individuals listed in the sample. Counsel stated that CWA-COPE believed that all of the employees, for whom PDAs were not retrieved, in fact executed proper authorization at the time that payroll deductions for CWA-COPE were initiated.

Finally Counsel stated that CWA-COPE would send a letter, signed by its Secretary-Treasurer, who has responsibility for CWA-COPE records and is also the Treasurer of CWA-COPE, to all CWA-COPE affiliates requesting that they:

- maintain copies of PDAs already in their possession in an accessible file;
- institute a policy of either retaining or seeking from employers copies of newly executed PDAs, and
- make these records available to CWA-COPE upon its request.

The letter would inform them that these records should be maintained indefinitely, except that, if they wish, they may discard PDAs three years after an employee's CWA-COPE payroll deduction ceases. A copy of the letter has been reviewed by the Audit staff and it covers those matters Counsel advised would be addressed.

#### **Clarification of Commission Policy Regarding Retention of PDAs**

Prior to considering this audit report, the Commission reconsidered its policy regarding records required to be kept by PACs that receive contributions through automatic payroll deduction and concluded that documents other than PDAs can be used to verify such contributions. An example of other acceptable documentation is a listing provided to the PAC by the member's employer containing the contributors' names, along with the dates and amounts of the contributions that are included in the transmittal.

As stated above, CWA-COPE received contributions from individuals totaling \$3,827,673 and had employer generated contributor lists to document contributions totaling \$3,384,475. Therefore, CWA-COPE maintained adequate records for more than 88% ( $\$3,384,475/\$3,827,673$ ) of contributions received from individuals. There remains nearly 12% of contributions that are inadequately documented.