



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

June 28, 2004

MEMORANDUM

TO: PRESS OFFICE

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

SUBJECT: PUBLIC ISSUANCE OF THE FINAL AUDIT REPORT ON
SCHNEIDER FOR CONGRESS (A03-16)

Attached please find a copy of the final audit report and related documents on Schneider for Congress, which was approved by the Commission on June 18, 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 Schneider for Congress

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 Committee (p. 2)

Schneider for Congress (SFC) is the principal campaign committee for Jan Schneider, Democratic candidate for the U.S. House of Representatives from the state of Florida, 13th District. SFC is headquartered in Sarasota, Florida. For more information, see the chart on the Campaign Organization, p. 2.

Financial Activity (p. 2)

- **Receipts**
 - Contributions \$ 308,442
 - Candidate Loans 85,500
 - Other Receipts 6,744
 - **Total Receipts \$ 400,686**

- **Disbursements**
 - Operating Expenditures \$ 339,418
 - Refund of Contributions 250
 - **Total Disbursements \$ 339,668**

Findings and Recommendations (p. 3)

- Disclosure of Earmarked Contributions (Finding 1)
- Disclosure of Expenditures, Candidate Loans, and Other Debts (Finding 2)

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 Schneider for Congress, 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 contributions from prohibited sources.
2. The disclosure of contributions received.
3. The disclosure of disbursements, debts and obligations.
4. The consistency between reported figures and bank records.
5. The completeness of records.
6. 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 those that were in effect during the audit period.

Part II

Overview of Campaign

Campaign Organization

Important Dates	Schneider for Congress
• Date of Registration	March 14, 2002
• Audit Coverage	January 1, 2001 – December 31, 2002
Headquarters	Sarasota, Florida
Bank Information	
• Bank Depositories	1
• Bank Accounts	1 Checking Account
Treasurer	
• Treasurer When Audit Was Conducted	Harold B. Schneider
• Treasurer During Period Covered by Audit	Carroll F. Johnson
Management Information	
• Attended FEC Campaign Finance Seminar	No
• Used Commonly Available Campaign Management Software Package	FECFile
• Who Handled Accounting and Recordkeeping Tasks	Volunteer Staff

Overview of Financial Activity (Audited Amounts)

Cash on hand @ February 5, 2002	\$ 0
• Receipts	
○ Contributions	308,442
○ Candidate Loans	85,500
○ Other Receipts	6,744
• Total Receipts	\$ 400,686
• Disbursements	
○ Operating Expenditures	339,418
○ Refund of Contributions	250
• Total Disbursements	\$ 339,668
Cash on hand @ December 31, 2002	\$ 61,018

Part III

Summary

Findings and Recommendations

Finding 1. Disclosure of Earmarked Contributions

A review of SFC's reported receipts identified contributions received through a conduit that lacked or inadequately disclosed information required by the Act. SFC complied with the Audit staff's recommendation by filing amended reports correctly disclosing these receipts. (For more detail, see p. 4)

Finding 2. Disclosure of Expenditures, Candidate Loans, and Other Debts

A review of SFC's reported expenditures, candidate loans, and debts and obligations identified a significant number of transactions that lacked or inadequately disclosed information required by the Act. SFC complied with the Audit staff's recommendation by filing amended reports correctly disclosing these expenditures, candidate loans, and debts and obligations. (For more detail, see p. 5)

Part IV

Findings and Recommendations

Finding 1. Disclosure of Earmarked Contributions

Summary

A review of SFC's reported receipts identified contributions received through a conduit that lacked or inadequately disclosed information required by the Act. SFC complied with the Audit staff's recommendation by filing amended reports correctly disclosing these receipts.

Legal Standard

- A. **Definition of a Conduit.** Anyone who receives and forwards an earmarked contribution to a candidate committee is considered a conduit. 11 CFR §110.6(b)(2)
- B. **Definition of an earmarked contribution.** An earmarked contribution is one which the contributor directs (either orally or in writing) to a clearly identified candidate or his or her authorized committee through an intermediary or conduit. 11 CFR §110.6(b)(1)
- C. **Required Information for Contributions from Individuals Received From a Conduit.** For each itemized contribution from an individual forwarded by a conduit, the recipient committee must report the following information:
- The contributor's full name and address (including zip code);
 - The contributor's occupation and the name of his or her employer;
 - The date of receipt (the date the conduit received the contribution);
 - The amount of the contribution;
 - The election cycle-to-date total of all contributions from the same individual;
 - The full name and address of the conduit; and
 - The date and total amount of earmarked contributions received from the conduit. 11 CFR §§100.12, 104.3(a)(4), 110.6(c) and 2 U.S.C. §434(b)(3)(A).

Facts and Analysis

A review of SFC's reported receipts identified earmarked contributions received through a conduit, MoveOn.org PAC, totaling \$87,888. SFC reported these contributions on Schedule A, line 11(a) (Contributions from individuals/persons other than political committees), but did not disclose information relative to the conduit. Additionally, SFC did not report the conduit transfers as memo entries on line 11(c)(Contributions from other political committees).

The disclosure requirements for contributions received through conduits are flexible. The recipient committee may either:

1. Itemize all transfers received from the conduit on Schedule A, line 11(c) (Other Political Committees) and include memo entries on Schedule A, line 11(a) (Individuals/Persons Other Than Political Committees) for only those individual contributions that aggregate greater than \$200; or,
2. Report all contributions received through the conduit on Schedule A, line 11(a) as contributions from individuals and provide memo entries on Schedule A, line 11(c) for the amount of the conduit transfers.

In either case, the disclosure of the itemizable individual contributions on Schedule A, line 11(a) must include the contributor's name, full identification, date the contribution was received by the conduit and the amount. Further, all contributions received from a conduit and itemized on line 11(a) must also include the identification of the conduit, and the date and amount of the conduit's transfer.

Interim Audit Report Recommendation and Committee Response

The Audit staff recommended that SFC:

- Disclose "Earmarked Contribution" in the description field on Schedule A, line 11(a) for all contributions received through the conduit that required itemization. Additionally, include a memo text entry for each of these contributions containing the contributor's last and first name, the conduit's full identification, and the date and amount of the transfer in which the contribution was received; and,
- Disclose as memo entries on Schedule A, line 11(c) the name of the conduit, along with the date, amount of each transfer, and "Earmarked Contribution" in the description field.

In response, SFC filed amended reports correctly disclosing the receipts discussed above.

Finding 2. Disclosure of Expenditures, Candidate Loans, and Other Debts

Summary

A review of SFC's reported expenditures, candidate loans, and debts and obligations identified a significant number of transactions that lacked or inadequately disclosed information required by the Act. SFC complied with the Audit staff's recommendation by filing amended reports correctly disclosing these expenditures, candidate loans, and debts and obligations.

Legal Standard

A. Reporting Operating Expenditures. When operating expenditures (including certain debts and obligations) to the same person exceed \$200 in an election cycle, the committee must report the:

- Amount;
- Date when the expenditure was made;

- Name and address of the payee; and
- Purpose (a brief description of why the disbursement was made—see below). 11 CFR §104.3(b)(4)(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)(4)(i)(A).
- **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)(4)(i)(A).

C. Reporting Outstanding Loans. A political committee must disclose the date incurred, the original source and amount of the loan, the due date, the interest rate, the cumulative payment, and the outstanding balance. In addition, if there are any endorsers or guarantors, their mailing address along with the name of their employer and occupation must be disclosed. 11 CFR §§100.7(a)(1) and 104.3(d).

D. Itemizing Debts and Obligations. A debt of \$500 or less 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. 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).

E. Reporting Outstanding Debts. A political committee must disclose the full name and address of each creditor, the outstanding beginning and ending balances, any amount incurred during the reporting period, any payment made during the reporting period and the nature or purpose of each debt until those debts are extinguished. When any debt is settled for less than the reported amount or value, each report shall contain a statement as to the circumstances and conditions under which the debt was extinguished and the amount paid. 2 U.S.C §434(b)(8) and 11 CFR §§104.3(d), 104.11(a) and 116.7.

F. Reporting Disputed Debts. A political committee shall report a disputed debt if the creditor has provided something of value to the political committee. Until the dispute is resolved, the political committee shall disclose on the appropriate reports any amounts paid to the creditor, any amount the political committee admits it owes and the amount the creditor claims is owed. 11 CFR §116.10(a).

Facts and Analysis

A review of SFC's reported expenditures, candidate loans, and debts and obligations identified a significant number of transactions that lacked or inadequately disclosed information required by the Act.

A. Disclosure of Operating Expenditures

The Audit staff identified expenditures totaling \$120,627 reported on Schedules B (Itemized Disbursements) that lacked or inadequately disclosed the required information. The majority of these expenditures did not have or inadequately disclosed the required memo entries to original vendors for reimbursements to individuals. The remaining expenditures lacked adequate disclosure of the address, purpose, amount, or election designation.

B. Disclosure of Candidate Loans

Candidate loans totaling \$85,500 reported on Schedules C (Loans) lacked the required disclosure information. For all reporting periods except the July Quarterly 2002 report, the date incurred, due date, and/or interest rate was not disclosed.

C. Disclosure of Debts and Obligations

The Audit staff identified debts and obligations totaling \$27,811 reported on Schedules D (Debts and Obligations) that lacked or inadequately disclosed the required information. SFC reported "Miscellaneous Debts – estimate (not yet billed)", but did not disclose the full name and address of each creditor, the outstanding beginning and ending balances, any amount incurred during the reporting period, any payment made during the reporting period and the nature or purpose of each debt. In addition, SFC inadequately disclosed a debt to Xpedite Systems, Inc. by not including the amount of debt in dispute. Finally, SFC did not disclose a disputed debt totaling \$8,032 to its former Finance Chair.

Interim Audit Report Recommendation and Committee Response

The Audit staff recommended that SFC:

- Disclose on Schedules B the correct address, purpose, amount, or election designation of expenditures;
- Disclose on Schedules B, for reimbursements to individuals (excluding personal travel and subsistence), a memo entry including the name and address of the original vendor, as well as the date, amount and purpose of the original purchase;
- Disclose on Schedules C the date incurred, the original source and amount of the loan, the due date, the interest rate, the cumulative payment, and the outstanding balance of candidate loans;
- Delete the Schedule D entries for the "Miscellaneous Debts – estimate (not yet billed)", and disclose the full name and address of *each* creditor, the outstanding beginning and ending balances, any amount incurred during the reporting period, any payment made during the reporting period and the nature or purpose of each debt; and
- Disclose on Schedules D, with respect to disputed debts, any amounts paid to the creditor, any amount SFC admits it owes and the amount the creditor claims is owed.

In response, SFC filed amended reports correctly disclosing the expenditures, candidate loans, and debts and obligations discussed above.