




FEDERAL ELECTION COMMISSION

Washington, DC 20463

November 12, 2003

MEMORANDUM

TO: RON M. HARRIS
PRESS OFFICER
PRESS OFFICE

FROM: JOSEPH F. STOLTZ 
ASSISTANT STAFF DIRECTOR
AUDIT DIVISION

SUBJECT: PUBLIC ISSUANCE OF THE AUDIT REPORT ON
NORTHUP FOR CONGRESS

Attached please find a copy of the audit report and related documents on Northup for Congress, which was approved by the Commission on November 4, 2003.

The report may be released to the public on November 13, 2003.

Attachment as stated

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



Report of the Audit Division on Northup 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)

The Northup for Congress (NFC) is the principal campaign committee for Anne Northup, Republican candidate for the U.S. House of Representatives from the state of Kentucky, Third District. The NFC maintains its headquarters in Louisville, Kentucky. For more information, see the chart on the Committee Organization, p. 2.

Financial Activity (p. 2)

- **Receipts**
 - Contributions \$ 2,950,906
 - Transfers from Authorized Committees 139,510
 - Other Receipts 28,535
 - **Total Receipts** \$ 3,118,951
- **Disbursements**
 - Operating Expenditures \$ 3,081,154
 - Other Disbursements 15,062
 - **Total Disbursements** \$ 3,096,216

Findings and Recommendations (p. 3)

- Misstatement of Financial Activity (Finding 1)
- Disclosure of Proceeds from Joint Fundraising Activity (Finding 2)

¹ 2 U.S.C. §438(b).

Report of the Audit Division on Northup for Congress

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Part I

Background

Authority for Audit

This report is based on an audit of Northup for Congress (NFC), 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. Disclosure of contributions received.
4. 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	
• Date of Registration	December 11, 2000
• Audit Coverage	January 1, 2001 – December 31, 2002
Headquarters	
	Louisville, Kentucky
Bank Information	
• Bank Depositories	Two
• Bank Accounts	Three Accounts
Treasurer	
• Treasurer When Audit Was Conducted	James L. Meagher
• Treasurer During Period Covered by Audit	James L. Meagher
Management Information	
• Attended FEC Campaign Finance Seminar	No
• 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	\$ 5,762
○ Contributions	2,950,906
○ Transfers from Authorized Committees	139,510
○ Other Receipts	28,535
Total Receipts	\$ 3,118,951
○ Operating Expenditures	3,081,154
○ Other Disbursements	15,062
Total Disbursements	\$ 3,096,216
Cash on hand @ December 31, 2002	\$ 28,497

Part III

Summaries

Findings and Recommendations

Finding 1. Misstatement of Financial Activity

A comparison of the NFC's reported figures to its bank records revealed that the ending cash-on-hand balance had been misstated for calendar year 2002. In response to the interim audit report, the NFC amended its most recent disclosure report to correct the misstatement noted above. (For more detail, see p. 4).

Finding 2. Disclosure of Proceeds from Joint Fundraising Activity

The NFC improperly disclosed the receipt of net proceeds from a joint fundraising activity with the 2002 Kentucky Republican Victory Committee on its 2002 Pre-General report. In response to the interim audit report, the NFC correctly amended this disclosure report. (For more detail, see p. 4).

Part IV

Findings and Recommendations

Finding 1. Misstatement of Financial Activity

Summary

A comparison of the NFC's reported figures to its bank records revealed that the ending cash-on-hand balance had been misstated for calendar year 2002. In response to the interim audit report, the NFC amended its most recent disclosure report to correct the misstatement noted above.

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).

Facts and Analysis

A comparison of the NFC's reported figures to its bank records revealed that the ending cash-on-hand balance for calendar year 2002 had been understated by \$18,662. This understatement resulted primarily from the reporting of vendor payments that did not clear the bank. The NFC voided these payments without amending its disclosure reports.

At the exit conference, the Audit staff provided the NFC representatives with schedules explaining the misstatement. The representatives agreed to amend the appropriate report(s).

Interim Audit Report Recommendation and Committee Response

In response to the recommendation in the interim audit report, the NFC amended its most recent disclosure report to correct the misstatement noted above.

Finding 2. Disclosure of Proceeds from Joint Fundraising Activity

Summary

The NFC improperly disclosed the receipt of net proceeds from a joint fundraising activity with the 2002 Kentucky Republican Victory Committee on its 2002 Pre-General report. In response to the interim audit report, the NFC correctly amended this disclosure report.

Legal Standard

Itemization of Contributions From Joint Fundraising Efforts. Participating political committees must report joint fundraising proceeds in accordance with 11 CFR §102.17(c)(8) when such funds are received from the fundraising representative. 11 CFR §102.17(c)(3)(iii).

Each participating political committee reports its share of the net proceeds as a transfer-in from the fundraising representative and must also file a memo Schedule A itemizing its share of gross receipts as contributions from the original contributors to the extent required under 11 CFR §§104.3(a) and 102.17(c)(8)(i)(B).

Itemization Required. Political committee must itemize:

- Every contribution from any political committee, regardless of the amount.
2 U.S.C. §434(b)(3)(A) and (B).

Facts and Analysis

The NFC received net proceeds of \$50,177 from the 2002 Kentucky Republican Victory Committee² joint fundraiser. The NFC, however, failed to disclose the receipt of the net proceeds on Schedule A, line 12 (Transfers from Other Authorized Committees) accompanied by memo Schedules A showing the gross amount of the contributions. Instead, the NFC reported the individual gross contributions of \$56,200 from 56 contributors on Schedule A, line 11(a)(i) of the 2002 Pre-General Report. This action also caused an overstatement of receipts in the amount of \$6,023 (\$56,200 - \$50,177).

At the exit conference, the Audit staff presented this matter to the NFC representatives. The representatives agreed to amend the 2002 Pre-General disclosure report.

Interim Audit Report Recommendation and Committee Response

In response to the recommendation in the interim audit report, the NFC amended Schedule A to its 2002 Pre-General report to disclose the receipt of net fundraising proceeds.

² The joint fundraising participants were the NFC and the Kentucky State Republican Party.