



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

October 4, 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 FINAL AUDIT REPORT ON
DUNN LAMPTON FOR CONGRESS

Attached please find a copy of the final audit report and related documents on the
Dunn Lampton for Congress that was approved by the Commission on September 27,
2002.

The report may be released to the public on October 4, 2002.

Attachment as stated

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

**REPORT OF THE AUDIT DIVISION
ON THE
DUNN LAMPTON FOR CONGRESS**

Approved September 27, 2002



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

TABLE OF CONTENTS

DUNN LAMPTON FOR CONGRESS

	PAGE
Executive Summary	1
Final Audit Report	3
Background	3
Finding	5
Transmittal to Committee	13
Chronology	15



FEDERAL ELECTION COMMISSION
Washington, DC 20463

DUNN LAMPTON FOR CONGRESS

EXECUTIVE SUMMARY

Dunn Lampton for Congress (DLFC) registered with the Commission on February 8, 2000 as the principal campaign committee for Dunn Lampton, Republican candidate for the U.S. House of Representatives from the state of Mississippi, Fourth District.

The audit was conducted pursuant to 2 U.S.C. §438(b), which states that the Commission may conduct audits of any political committee whose reports fail to meet the threshold level of compliance set by the Commission. The five findings from the audit were presented to the Committee at the completion of fieldwork on April 1, 2002 and later in the interim audit report. The relevant parts of the Committee's response to these findings are included in the audit report.

The following is an overview of the findings contained in the audit report.

Receipt of Contributions in Excess of the Limitation – 2 U.S.C. §441a(a)(1)(A); 11 CFR §103.3(b) and 102.5(b). The review of contributions from unregistered political organizations indicated that DLFC received contributions totaling \$5,000 from Rankin County Republican Executive Committee, a total that exceeded the \$1,000 limitation. In response to the audit report, DLFC refunded \$4,000 to this entity.

Itemization of Contributions from Individuals and Political Committees – 2 U.S.C. §§434(b)(3)(A) and (B), 431(13); 11 CFR §100.7(a)(1)(iii). The Audit staff reviewed contributions from individuals on a sample basis and determined that DLFC did not itemize 25% of the contributions on Schedules A (Itemized Receipts) as required. The Audit staff's review of all contributions from political committees indicated that DLFC did not itemize 12 contributions, totaling \$31,500, and 7 in-kind contributions from LEHI Committee PAC, totaling \$3,250. DLFC filed amended Schedules A that materially corrected the public record for the itemization of contributions (including the in-kind contributions) from political committees. DLFC corrected some of the individual itemization errors, decreasing the error rate from 25% to 19%. However, this error rate is still considered to be material.

Itemization and Disclosure of Disbursements – 2 U.S.C. §434(b)(5)(A); 11 CFR §104.3(b)(4)(i)(A) and (B). A review of all DLFC disbursements indicated that 61 disbursements, totaling \$62,384, and 10 in-kind contributions, totaling \$4,729, were not

itemized on Schedules B (Itemized Disbursements) as required. The review also indicated a material omission of disclosure information for disbursements itemized on Schedules B. There were 30 errors totaling \$212,661. These errors, which represented approximately 46% of the dollar amount of total disbursements requiring disclosure information, were primarily due to disbursements that did not have an adequate purpose or did not have the correct name and/or address. DLFC filed amended Schedules B that materially corrected the public record for the itemization errors noted above. DLFC corrected some of the disclosure errors, which decreased the error rate from 46% of the dollar amount of total disbursements requiring disclosure information, to 32%.

Disclosure of Debts and Obligations – 2 U.S.C. §434(b)(8); 11 CFR §104.3(d), 104.11(a) and (b). During the Audit staff's review of disbursements, the disclosure of debts and obligations owed by DLFC was also tested. DLFC did not disclose 6 debts, totaling \$29,121, which accounted for approximately 49% of the dollar amount of debts requiring disclosure on Schedules D (Debts and Obligations). DLFC filed amended Schedules D that materially corrected the public record.

Misstatement of Financial Activity – 2 U.S.C. §434(b)(1), (2), and (4). A reconciliation of DLFC's reported financial activity to its bank activity indicated that receipts and disbursements had been materially understated. DLFC filed amendments that corrected the misstatements.



FEDERAL ELECTION COMMISSION
WASHINGTON, D C 20463

A01-07

REPORT OF THE AUDIT DIVISION
ON
DUNN LAMPTON FOR CONGRESS

I. BACKGROUND

A. AUDIT AUTHORITY

This report is based on an audit of Dunn Lampton for Congress (DLFC), undertaken by the Audit Division of the Federal Election Commission (the 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 that 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 selected committees to determine if the 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 February 1, 2000 (the date of DLFC's initial deposit) through December 31, 2000. DLFC reported a beginning cash balance of \$0; total receipts for the audit period of \$465,819; total disbursements for the audit period of \$465,371; and, an ending cash balance of \$448.

C. CAMPAIGN ORGANIZATION

DLFC registered with the Commission on February 8, 2000 as the principal campaign committee for Dunn Lampton, Republican candidate for the U.S. House of Representatives from the state of Mississippi, Fourth District. DLFC maintains its headquarters in Jackson, Mississippi and its treasurer is Mr. Wayne Hutchison, who also served as treasurer during the period covered by the audit. Mr. Hutchison had previous experience with campaign reporting and recordkeeping, but has never attended any Commission conferences or seminars. He also served as treasurer for Friends of Dunn Lampton, the Candidate's 1998 campaign committee.

DLFC used electronic spreadsheets to account for its financial activity, however, the disclosure reports filed with the Commission were prepared manually. DLFC did file 48-hour disclosure notices electronically. A paid staff person handled report preparation, recordkeeping, and the other day-to-day operations. Volunteer staff worked for the campaign at various times.

To manage its financial activity, DLFC maintained one checking account. From this account, 328 disbursements were made, totaling \$502,157. DLFC's receipts were comprised of the following: 1,411 contributions from individuals, totaling \$329,290; 100 contributions from political committees, totaling \$170,145; and, 15 in-kind contributions, totaling \$8,599.¹

D. AUDIT SCOPE AND PROCEDURES

Following Commission-approved procedures, the Audit staff evaluated various risk factors to determine the scope of this audit. The audit included testing of the following general categories:

1. the receipt of contributions or loans in excess of the statutory limitations (see Finding II.A.);
2. the receipt of contributions from prohibited sources, such as those from corporations or labor organizations;
3. proper disclosure of receipts from individuals, political committees and other entities, to include the itemization of contributions or other receipts when required, as well as, the completeness and accuracy of the information disclosed (see Findings II.B., C. and D.);
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;
6. the accuracy of total reported receipts, disbursements and cash balances as compared to DLFC bank records (see Finding II.E.);
7. adequate recordkeeping for DLFC transactions; and,
8. other-audit procedures that were deemed necessary in the situation.

Unless specifically discussed below, no material non-compliance was detected. It should be noted that the Commission may pursue further any of the matters discussed in this report in an enforcement action.

¹ Disbursements made from this account total approximately \$37,000 more than total reported disbursements and these receipt categories total approximately \$42,000 more than total reported receipts (see Finding II.E.).

II. AUDIT FINDINGS AND RECOMMENDATIONS

A. RECEIPT OF CONTRIBUTIONS FROM UNREGISTERED ORGANIZATIONS

Section 441a(a)(1)(A) of Title 2 of the United States Code states that no person shall make contributions to any candidate and his authorized political committees with respect to any election for Federal office which, in the aggregate, exceed \$1,000.

Section 110.1(b)(2)(ii) of Title 11 of the Code of Federal Regulations explains that *with respect to any election* means that if the contribution is not designated in writing by the contributor for a particular election, then the contribution applies to the next election for that Federal office after the contribution is made.

Sections 103.3(b)(3) and (4) of Title 11 of the Code of Federal Regulations state, in part, that contributions which exceed the contribution limitations may be deposited into a campaign depository or returned to the contributor. If any such contribution is deposited, the treasurer may request redesignation or reattribution of the contribution by the contributor in accordance with 11 CFR 110.1(b) or 110.1(k). If a redesignation or reattribution is not obtained, the treasurer shall, within 60 days of the treasurer's receipt of the contribution, refund the contribution to the contributor. Further, any contribution which appears to be illegal under 11 CFR 103.3(b)(3), and which is deposited into a campaign depository shall not be used for any disbursements by the political committee until the contribution has been determined to be legal. The political committee must either establish a separate account in a campaign depository for such contributions or maintain sufficient funds to make all such refunds.

Section 110.1(b)(5)(i) and (ii) of Title 11 of the Code of Federal Regulations states, in part, that the treasurer of an authorized political committee may request a written redesignation of a contribution by the contributor for a different election if:

- the contribution was not designated in writing for a particular election, and the contribution exceeds the limitation on contributions set forth in 11 CFR §110.1(b)(1); or
- the contribution was not designated in writing for a particular election, and the contribution was received after the date of an election for which there are net debts outstanding on the date the contribution is received.

Further, a contribution shall be considered to be redesignated for another election if the treasurer of the recipient authorized political committee requests that the contributor provide a written redesignation of the contribution and informs the contributor that the contributor may request the refund of the contribution as an alternative to providing a written redesignation and, within sixty days from the date of the treasurer's receipt of the contribution, the contributor provides the treasurer with a written redesignation of the contribution for another election, which is signed by the contributor.

Section 110.1(1)(5) of Title 11 of the Code of Federal Regulations states, in part, that if a political committee does not retain the written records concerning redesignation or reattribution, the redesignation or reattribution shall not be effective, and the original designation or attribution shall control.

Section 110.9(a) of Title 11 of the Code of Federal Regulations states that no candidate or political committee shall accept any contribution or make any expenditure in violation of the provisions of part 110. No officer or employee of a political committee shall accept a contribution made for the benefit or use of a candidate, or make any expenditure on behalf of a candidate, in violation of any limitation imposed on contributions and expenditures under this part 110.

Section 102.5(b) of Title 11 of the Code of Federal Regulations states, in part, that any organization that makes contributions or expenditures but does not qualify as a political committee under 11 CFR 100.5 shall either:

- establish a separate account to which only funds subject to the prohibitions and limitations of the Act shall be deposited and from which contributions, expenditures and exempted payments shall be made. Such organizations shall keep records of deposits to and disbursements from such account and, upon request, shall make such record available for examination by the Commission; or,
- demonstrate through a reasonable accounting method that whenever such organization makes a contribution, expenditure or exempted payment, that organization has received sufficient funds subject to the limitations and prohibitions of the Act to make such contribution, expenditure or payment. Such organization shall keep records of amounts received or expended under this subsection and, upon request, shall make such records available for examination by the Commission.

DLFC's contribution records consisted of an electronic database containing contribution information² and copies of contributor checks.

The review of contributions indicated that DLFC received contributions totaling \$5,000 from Rankin County Republican Executive Committee. This unregistered political organization gave DLFC \$1,000 on July 27, 2000, \$500 on September 11, 2000 and \$3,500 on October 23, 2000. DLFC noted all three contributions as General on both its contributions database and Schedules A. The date of the Primary election was March 14, 2000.

² As originally submitted, the database appeared to contain fewer contributions than reported by DLFC. The Audit staff obtained the missing information from copies of contributor checks and supplemented the original database.

The Audit staff explained to DLFC officials that these contributions were considered in excess of the limit because unregistered political organizations are limited to making contributions aggregating \$1,000 per election, provided permissible funds were in the account.³ The Candidate stated that DLFC did not have written procedures for handling excessive contributions, but that it was their practice to make refunds whenever they identified one.

A letter dated April 8, 2002 from Rankin County Republican Executive Committee to DLFC requested that \$1,000 be redesignated to the 2000 Primary election and \$3,000 be refunded. The Audit staff notes that redesignating \$1,000 at this time is a remedy not available to DLFC because the letter was not obtained within 60 days of DLFC's receipt of the contributions in question, as required by 11 CFR 103.3(b)(3).⁴ The \$3,000 had not been refunded at the time of the interim audit report. DLFC also provided documentation from Rankin County Republican Executive Committee that demonstrated the initial \$1,000 contribution originated from permissible sources.

The Audit staff also performed an analysis of contributions and disbursements to determine whether any of the contributions designated for the general election had been spent on primary election expenses. The analysis was performed using election designations for contributions and disbursements as entered by DLFC on its database. In cases where DLFC's database did not have an election designation, the Audit staff used the designation in DLFC's disclosure reports. If the transaction was not identified in the disclosure reports, then the Audit staff determined the election designation based on the date of the transaction. The analysis shows that contributions designated by DLFC for the general election were not spent on primary related activity. DLFC did not maintain a separate account to deposit questionable contributions but did consistently maintain a sufficient balance to cover the amounts deposited in excess of the limitation until just prior to the General election.⁵

In the interim audit report, the Audit staff recommended that DLFC provide evidence demonstrating that the contributions noted above were not excessive or that they were timely redesignated, or refunded. Absent such evidence, it was recommended that DLFC refund the amount in excess of the \$1,000 limitation, or \$4,000, and provide evidence of the refund (photocopy of the front and back of the negotiated refund check). If funds were not currently available to make the necessary refund, it was further recommended that these contributions be disclosed as debts on Schedules D (Debts and Obligations) until such time that funds became available to make the refund.

³ Mississippi state election law allows contributions from both corporations and labor unions.

⁴ DLFC had net debts outstanding on the date of the Primary election in excess of \$1,000, so the redesignation would have been acceptable if it had been done timely.

⁵ The latest FEC disclosure report filed by DLFC covered activity from January 1, 2002 through March 31, 2002 and disclosed a cash-on-hand balance of \$0 as of the end of the reporting period.

In response to the interim audit report, DLFC refunded \$4,000 to Rankin County Republican Executive Committee and provided a copy of the negotiated refund check.

B. ITEMIZATION OF CONTRIBUTIONS FROM INDIVIDUALS AND POLITICAL COMMITTEES

Section 434(b)(3)(A) of Title 2 of the United States Code requires, in part, a political committee to report the identification of each person (other than a political committee) who makes a contribution to the committee in an aggregate amount or value in excess of \$200 per calendar year together with the date and amount of any such contribution.

Section 434(b)(3)(B) of Title 2 of the United States Code states that each report under this section shall disclose the identification of each political committee which makes a contribution to the reporting committee during the reporting period, together with the date and amount of any such contribution.

Section 431(13) of Title 2 of the United States Code defines the term "identification" to be, in the case of any individual, the name, the mailing address, and the occupation of such individual, as well as the name of his or her employer; and, in the case of any other person, the full name and address of such person.

Section 100.7(a)(1)(iii) of Title 11 of the Code of Federal Regulations defines the donation of goods offered free or at less than the usual charge or the payment of services on the committee's behalf as an in-kind contribution. Any in-kind contribution must also be reported as an in-kind disbursement pursuant to 11 CFR §100.8(a)(1)(iv).

1. Contributions from Individuals

The Audit staff reviewed contributions from individuals on a sample basis and determined that DLFC did not itemize 25% of the contributions on Schedules A as required. These contributions related to the General election. It appeared that DLFC did not itemize multiple contributions from individuals that were less than \$200, which later aggregated in excess of \$200 from the contributor, as required by 2 U.S.C. 434(b)(3)(A).

At the exit conference the Audit staff presented this matter to DLFC officials. The Candidate stated that since no system was in place to aggregate multiple contributions received from the same contributor, DLFC staff performed aggregation manually. The Candidate stated that amendments to the appropriate reports would be filed.

2. Contributions from Political Committees

The Audit staff's review of all contributions from political committees indicated that DLFC did not itemize 12 contributions, totaling \$31,500, on Schedules A as required. In addition, the review indicated that 7 in-kind contributions from LEHI Committee PAC, totaling \$3,250, were not itemized on DLFC's Schedules A. According to FEC disclosure reports filed by the LEHI Committee PAC, these in-kind contributions were related to receptions held for DLFC. These 7 in-kind contributions were also not itemized as disbursements on Schedules B as required (see Finding II.C.).

At the exit conference DLFC officials were given schedules identifying the contributions that were not itemized. No comments were provided on this matter but the Candidate stated that amendments to the appropriate reports would be filed.

3. Response to the Interim Audit Report

In the interim audit report, the Audit staff recommended that DLFC file amended Schedules A (Itemized Receipts), by reporting period, to correct the deficiencies noted above.

In response to the interim audit report, DLFC filed amended Schedules A that materially corrected the public record for the itemization of contributions (including the in-kind contributions) from political committees. DLFC corrected some of the individual itemization errors, decreasing the error rate from 25% to 19%. However, this error rate is still considered to be material.

C. ITEMIZATION AND DISCLOSURE OF DISBURSEMENTS

Section 434(b)(5)(A) of Title 2 of the United States Code states that each report under this section shall disclose the name and address of each person to whom an expenditure in an aggregate amount or value in excess of \$200 within the calendar year is made by the reporting committee to meet a candidate or committee operating expense, together with the date, amount, and purpose of such operating expenditure.

Section 104.3(b)(4)(i)(A) and (B) of Title 11 of the Code of Federal Regulations defines "purpose" as a brief statement or description of why the disbursement was made, and gives examples of acceptable descriptions.

DLFC's disbursement records consisted of an electronic database containing information for disbursements,⁶ copies of invoices from vendors, and copies of cancelled checks.

⁶ As originally submitted, the database appeared to contain significantly fewer disbursements than reported by DLFC. The Audit staff obtained the missing information from DLFC's bank statements/cancelled checks and supplemented the original database.

A review of all DLFC disbursements indicated that 61 disbursements, totaling \$62,384, were not itemized on Schedules B (Itemized Disbursements) as required. These omissions represented approximately 13% of the dollar amount of disbursements requiring itemization. In addition, the review indicated that 10 in-kind contributions, totaling \$4,729, were not itemized on Schedules B. Seven of the 10 in-kind contributions from LEHI Committee PAC, totaling \$3,250, were also not itemized on Schedules A as required (see Finding II.B.2.). The review also indicated a material omission of disclosure information for disbursements itemized on Schedules B. There were 30 errors totaling \$212,661. These errors, which represented approximately 46% of the dollar amount of total disbursements requiring disclosure information, were primarily due to disbursements that did not have an adequate purpose or did not have the correct name and/or address.

At the exit conference DLFC officials were given schedules that listed the itemization and disclosure errors noted above. The Candidate stated that amendments to the appropriate reports would be filed.

In the interim audit report, the Audit staff recommended that DLFC file amended Schedules B (Itemized Disbursements), by reporting period, to correct the deficiencies noted above.

In response to the interim audit report, DLFC filed amended Schedules B that materially corrected the public record for the itemization errors noted above. DLFC corrected some of the disclosure errors, which decreased the error rate from 46% of the dollar amount of total disbursements requiring disclosure information to 32%. This error rate is still considered to be material.

D. DISCLOSURE OF DEBTS AND OBLIGATIONS

Section 434(b)(8) of Title 2 of the United States Codes states, in part, that each report under this section shall disclose the amount and nature of outstanding debts and obligations owed by a political committee.

Section 104.3(d) of Title 11 of the Code of Federal Regulations states, in part, that each report filed under 11 CFR 104.1 shall disclose on Schedule D the amount and nature of outstanding debts and obligations owed by or to the reporting committee.

Sections 104.11(a) and (b) of Title 11 of the Code of Federal Regulations state, in part, that debts and obligations owed by or to a political committee which remain outstanding shall be continuously reported until extinguished. These debts and obligations shall be reported on separate schedules together with a statement explaining the circumstances and conditions under which each debt and obligation was incurred or extinguished. A debt or obligation, the amount of which is \$500 or less, shall be reported as of the time payment is made or not later than 60 days after such obligation is incurred, whichever comes first. A debt or obligation which is over \$500 shall be reported as of the date on which the debt or obligation is incurred, except that any obligation incurred

for rent, salary or other regularly reoccurring administrative expense shall not be reported as a debt before the payment due date.

During the Audit staff's review of disbursements, the disclosure of debts and obligations owed by DLFC was also tested. DLFC did not disclose 6 debts, totaling \$29,121, which accounted for approximately 49% of the dollar amount of debts requiring disclosure on Schedules D.

At the exit conference DLFC officials were given schedules of the debt errors. The Candidate stated that he did not know why this had occurred and that amendments to the appropriate reports would be filed.

In the interim audit report, the Audit staff recommended that DLFC file amended Schedules D, by reporting period, to properly disclose the debts and obligations noted above.

In response to the interim audit report, DLFC filed amended Schedules D that materially corrected the public record.

E. MISSTATEMENT OF FINANCIAL ACTIVITY

Sections 434(b)(1), (2) and (4) of Title 2 of the United States Code require a political committee to disclose the amount of cash on hand at the beginning of each reporting period and the total amount of all receipts and disbursements for each reporting period and the calendar year.

A reconciliation of DLFC's reported financial activity to its bank activity indicated that receipts and disbursements had been materially understated.

DLFC reported total receipts of \$465,819 and should have reported receipts of \$502,180, an understatement of \$36,361. The misstatement was due to the following: not reporting contributions from individuals and political committees, totaling \$36,109; not reporting seven in-kind contributions from a political committee, totaling \$3,250; a math error resulting in an understatement of \$251; and, an unexplained difference of (\$3,249).

DLFC reported total disbursements of \$465,371 and should have reported disbursements of \$502,157, a net understatement of \$36,785. The misstatement was due to the following: a net under reporting of disbursements, totaling \$34,826; not reporting in-kind contributions, totaling \$4,528; reporting five disbursements not supported by debits to DLFC's bank statements, totaling (\$2,270); not reporting bank service charges, totaling \$287; and, an unexplained difference of (\$586).

At the exit conference DLFC officials were informed of the discrepancies noted above and were provided with a copy of relevant workpapers. DLFC officials indicated that amendments to the appropriate reports would be filed.

In the interim audit report, the Audit staff recommended that DLFC file amendments to the applicable reports to correct the misstatements noted above. These amendments were to include Summary and Detailed Summary Pages for each applicable reporting period, and were to be submitted in conjunction with the appropriate Schedules A and B requested in Findings II.B. and II.C.

In response to the interim audit report, DLFC filed amendments that corrected the misstatements noted above.



FEDERAL ELECTION COMMISSION
WASHINGTON D.C. 20463

September 30, 2002

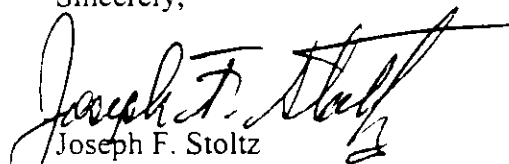
Mr. Wayne Hutchison, Treasurer
Dunn Lampton for Congress
200 3rd Street
P.O. Box 222
McComb, MS 39649

Dear Mr. Hutchison:

Attached please find the Report of the Audit Division on Dunn Lampton for Congress (Final Audit Report). The Commission approved the report on September 27, 2002.

The Commission-approved Final Audit Report will be placed on the public record on October 4, 2002. Should you have any questions regarding the public release of the report, please contact the Commission's Press Office at (202) 694-1220. Any questions you have related to matters covered during the audit or in the report should be directed to Rickida Skinner or Marty Favin of the Audit Division at (202) 694-1200 or toll free at (800) 424-9530.

Sincerely,


Joseph F. Stoltz
Assistant Staff Director
Audit Division

cc: Dunn Lampton

Attachment as stated

CHRONOLOGY

DUNN LAMPTON FOR CONGRESS

Audit Fieldwork	2/27/02 to 4/1/02
Interim Audit Report to the Committee	7/24/02
Response Received to the Interim Audit Report	9/10/02
Final Audit Report to Commission	9/23/02
Final Audit Report Approved	9/27/02