

## **Best Practices for Committee Management**

While the misappropriation of committee funds is not common, the Commission has encountered a number of cases of where political committee staff misappropriated funds. In addition to the difficulties committees face in discovering that funds are missing, misappropriations are often accompanied by the filing of inaccurate disclosure reports with the FEC, leaving committees vulnerable to FEC enforcement action and potential liability for those reporting errors.

To help protect committees, the FEC created a safe harbor for political committees that have certain internal controls in place to prevent misappropriations and associated misreporting. Under this provision, if these internal controls are in place at the time of a misappropriation, and the committee follows the post-discovery steps described below, the FEC will not seek a civil penalty against the political committee for filing incorrect reports due to the misappropriation of committee funds. This article answers common questions about the best way for committees to protect themselves in case of a misappropriation.

### **What are the minimum internal controls required for the safe harbor?**

In order to avail itself of the safe harbor, a political committee must implement these minimum internal controls:

- All bank accounts must be opened in the name of the committee using the committee's Employer Identification Number. Bank accounts should never be opened in the name of an individual using an individual's Social Security Number.
- Bank statements must be reviewed for unauthorized transactions and reconciled with the accounting records each month. Further, bank records must be reconciled with disclosure reports prior to filing. The reconciliations must be done by someone other than a check signer or an individual responsible for handling the committee's accounting.
- Checks in excess of \$1,000 must be authorized in writing and/or signed by two individuals. Further, all wire transfers must be authorized in writing by two individuals. The individuals who authorize disbursements or sign checks should be identified in writing in the committee's internal policies.
- An individual who does not handle the committee's accounting or have banking authority receives incoming checks and monitors all other incoming receipts. This individual makes a list of all committee receipts and places a restrictive endorsement, such as "For Deposit Only to the Account of the Payee," on all checks.
- The committee must use an imprest system for petty cash funds, and the value of the petty cash fund should be no more than \$500. An imprest system is one in which the sum of the disbursements recorded in the petty cash log since the last replenishment and the remaining cash always equals the stated amount of the fund. When the fund is replenished, the amount of the replenishment equals the amounts recorded since the prior replenishment and should bring the cash balance back to the stated amount. Only one person should be in charge of the fund.

### **What should the committee do if it discovers a misappropriation?**

As soon as a misappropriation is discovered, the political committee must notify law enforcement. The committee also must notify the FEC and file amended reports to correct any reporting errors due to the misappropriation.

## **Is there anything else the committee can do to prevent misappropriations?**

The Commission recommends that political committees implement additional internal controls to help prevent misappropriation of funds and the filing of inaccurate disclosure reports. The recommended controls include:

- Limiting the number of people authorized to sign checks. In addition, checks in excess of a certain dollar amount should require the signature of two responsible individuals. The recommended threshold is \$1,000. Facsimile signatures should be prohibited unless controlled by a check-signing machine with a numerical sequence counter. No signature stamps should be allowed.
- Carefully controlling committee debit and credit cards since they represent easy access to committee assets. Ask the committee's bank or credit card issuer about placing dollar restrictions and prohibitions on withdrawals.
- Recording receipts as mail is opened. A responsible official should periodically compare the list with the recorded amount for the deposit and the amount on the bank statement. Consider using a lockbox service to process receipts.
- Mailing checks promptly and directly to the payees. The person mailing the check should be independent of those requesting, writing and signing it. Also, require that the person taking control of the checks sign for them.
- Implementing a daily back-up system for the committee's electronic data to avoid a loss of data that can interfere with the committee's ability to file timely and accurate disclosure reports.

### **Additional Information**

For more information on the safe harbor and for additional measures committees may take to prevent misappropriation, please consult the Statement of Policy ([http://www.fec.gov/law/cfr/ej\\_compilation/2007/notice\\_2007-9.pdf](http://www.fec.gov/law/cfr/ej_compilation/2007/notice_2007-9.pdf)) and the list of recommended controls ([http://www.fec.gov/law/policy/guidance/internal\\_controls\\_polcmtes\\_07.pdf](http://www.fec.gov/law/policy/guidance/internal_controls_polcmtes_07.pdf)).  
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