

WASHINGTON

REPORT OF THE AUDIT DIVISION

ON

**Darrel Ealum
for
Congress**

Approved June 11, 1998



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

TABLE OF CONTENTS
DARREL EALUM FOR CONGRESS

	Page
Executive Summary	1
Final Audit Report	3
Background	3
Findings	4
Transmittal to Committee	11
Chronology	13

FBI - MEMPHIS - 44-1987-100



FEDERAL ELECTION COMMISSION
Washington, DC 20463

***FINAL AUDIT REPORT
ON
DARREL EALUM FOR CONGRESS
EXECUTIVE SUMMARY***

Darrel Ealum for Congress (the Committee) registered with the Federal election Commission on February 16, 1996 as the principal campaign committee for Darrel Bush Ealum, Republican candidate for the U.S. House of Representatives from Georgia's Second Congressional District.

The audit was conducted pursuant to 2 U.S.C. Section 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 findings of the audit were presented to the Committee at an exit conference held at the completion of field work on June 26, 1997, and later in an interim audit report. The Committee's responses to those findings are included in the final audit report.

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

Excessive Contributions- 2 U.S.C. Section 441a(a)(1)(A); 11 CFR Sections 110.1(b)(1) and (3), 110.1(b)(5)(i) and (ii), 110.1(c), 110.1(d), and 110.1(k). The Committee received 13 contributions from 11 individuals which exceeded the donors' limitations by \$8,900. The Committee provided negotiated refund checks totaling \$6,300 and stated that evidence of an additional \$1,000 refund would be provided. However, the Committee response failed to provide any evidence of refunds for the remaining \$1,600 of excessive contributions.

Failure to Itemize Disbursements- 2 U.S.C. Section 434(b)(5)(A). During the audit period the Committee failed to itemize 81 disbursements totaling \$71,360. The Committee filed amended disclosure reports itemizing all 81 disbursements.

..

Misstatement of Financial Activity- 2 U.S.C. Section 434(b)(1), (2), and (4). The audit staffs bank reconciliation for the audit period determined that the Committee underreported its receipts by \$12,509 and underreported its disbursements by \$74,540. As a result, the Committee overstated its ending cash on hand by \$62,031. The Committee filed amended disclosure reports for the audit period which corrected the misstatements.

Failure to Itemize Debts and Obligations- 2 U.S.C. Section 434(b)(2)(G) and (3)(E). During the audit period the Committee failed to itemize \$48,954 of loans from the Candidate on Schedule A and failed to itemized \$11,500 of loans from the Candidate on Schedule C. The Committee also failed to itemize \$3,200 of loan repayments to the Candidate on Schedule B and \$8,200 on Schedule C.

69
78
80
81
82
83
84
85
86
87
88
89
90
91
92
93
94
95
96
97
98
99



FEDERAL ELECTION COMMISSION
WASHINGTON DC 20463

**REPORT OF THE AUDIT DIVISION
ON
DARREL EALUM FOR CONGRESS**

I. BACKGROUND

A. AUDIT AUTHORITY

This report is based on an audit of Darrel Ealum for Congress (the Committee), undertaken by the Audit Division of the Federal Election 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 which 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 January 2, 1996, the inception of bank activity, through December 31, 1996. The Committee reported a beginning cash balance of \$0; total receipts for the period of \$387,357¹; total disbursements for the period of \$325,302; and an ending cash balance of \$62,055.

C. CAMPAIGN ORGANIZATION

The Committee registered with the Federal Election Commission on February 16, 1996 as the principal campaign committee for Darrel Bush Ealum, Republican candidate for the U.S. House of Representatives from the State of Georgia for the Second District. The Treasurer of the Committee since inception is Angie Draper.

¹ The Audit staff derived the reported amounts for total receipts and total disbursements by adding up the amounts the Committee reported on each disclosure report. The amounts the Committee listed as year-to-date in its reports did not represent the actual amounts the Committee reported on the supporting schedules.

2025 RELEASE UNDER E.O. 14176

The Committee used only one bank account to handle its financial activity. The Committee deposited approximately \$399,866 during the audit period consisting of 22 PAC contributions totaling \$41,250, 16 loans/contributions from the Candidate totaling \$52,204, and the remainder coming from individual contributors. The Committee made approximately 282 operating expenditures totaling \$391,541, one contribution refund of \$100, and 3 loan repayments totaling \$8,200.

D. AUDIT SCOPE AND PROCEDURES

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 contributions from individuals, political committees, and other entities, to include the itemization of contributions when required, as well as, the completeness and accuracy of the information disclosed;
4. proper disclosure of disbursements including the itemization of disbursements when required, as well as, the completeness and accuracy of the information disclosed (see Finding II. B);
5. proper disclosure of campaign debts and obligations (see Finding II.D.);
6. the accuracy of total reported receipts, disbursements, and cash balances as compared to campaign bank records (see Finding II. C);
7. adequate recordkeeping for campaign transactions;
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 any of the matters discussed in this report in an enforcement action.

II. FINDINGS AND RECOMMENDATIONS

A. EXCESSIVE CONTRIBUTIONS

Section 441a(a)(1)(A) of Title 2 of the United States Code and Section 110.1(b)(1) of Title 11 of the Code of Federal Regulations state 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)(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 to a different election if:

- the contribution was designated in writing for a particular election, and the contribution, either on its face or when aggregated with other contributions from the same contributor for the same election, exceeds the limitation on contributions set forth in 11 CFR 110.1(b)(1);
- the contribution was designated in writing for a particular election and the contribution was made after that election and the contribution cannot be accepted under the net debts outstanding provisions of 11 CFR 110.1(b)(3);
- 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 which is signed by the contributor.

Section 110.1(k) of Title 11 of the Code of Federal Regulations states that any contribution made by more than one person, except for a contribution made by a partnership, shall include the signature of each contributor on the check, money order, or other negotiable instrument or in a separate writing and if a contribution made by more

9
9
7
0
7
0
N
E
2
1
0
9

than one person does not indicate the amount to be attributed to each contributor, the contribution shall be attributed equally to each contributor.

If a contribution to a candidate or political committee, either on its face or when aggregated with other contributions from the same contributor, exceeds the limitations on contributions set forth in 11 CFR 110.1(b), (c), or (d), as appropriate, the treasurer of the recipient political committee may ask the contributor whether the contribution was intended to be a joint contribution by more than one person. A contribution shall be considered to be reattributed to another contributor if the treasurer of the recipient political committee asks the contributor whether the contribution is intended to be a joint contribution by more than one person, and informs the contributor that he or she may request the return of the excessive portion of the contribution if it is not intended to be a joint contribution, and within sixty days from the date of the treasurer's receipt of the contribution, the contributors provide the treasurer with a reattribution of the contribution, which is signed by each contributor, and which indicates the amount to be attributed to each contributor if equal attribution is not intended.

A review of the committee's receipts documentation was conducted. The Audit staff used copies of contributor checks provided by the Committee and compared these checks and their signatures with amounts listed by individual in the Committee's computer database and on the Committee's disclosure reports. This review indicated that the Committee received \$8,900 in excessive contributions from individuals. In most cases, the Committee attributed a contribution to both a husband and a wife without having a signature for both individuals. In one case, a contributor's check was written before the Primary Election but the Committee deposited the check after the Primary and incorrectly designated the contribution for the General Election.

During a meeting with the Candidate the Committee was informed that the Audit staff had identified excessive contributions from individuals. The Audit staff told the Candidate that the main cause was that the Committee improperly attributed contributions to two spouses when only one spouse signed the check without obtaining a signed reattribution letter. The Candidate said he knew the contributions came from both spouses, but he also understood the Commission rule that requires a signature for each person to whom a contribution is to be attributed. At the exit conference, the Committee was provided with a schedule of the excessive contributions.

In the interim audit report, the audit staff recommended that the Committee provide documentation to demonstrate that the contributions noted above were not excessive. Absent such a demonstration the audit staff recommended that the Committee refund these contributions and provide evidence of the refunds in the form of copies of the front and back of the negotiated checks. If the Committee did not have the funds to make these refunds, the audit staff recommended that the Committee file amended Schedules D to disclose these items as debts owed by the Committee.

In response to the interim audit report, the Committee provided photocopies of the fronts and backs of negotiated refund checks totaling \$6,300. All of the refund checks were dated November 17, 1997. The Committee also provided a photocopy of the front of a \$1,000 refund check which has not cleared the bank. The Committee has stated that it will provide evidence of this refund once the check clears the bank.

The Committee's response to the interim audit report failed to provide any evidence of refunds for \$1,600 of excessive contributions.

B. FAILURE TO ITEMIZE DISBURSEMENTS

Section 434(b)(5)(A) states that each report 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.

A review of the Committee's disbursements revealed that 81 items totaling \$71,360 were not itemized as required. It appears that the main cause of these errors was the Committee's practice of aggregating by report period rather than by calendar year. The Audit staff discussed the aggregation procedures with the Committee treasurer and she acknowledged that she had been aggregating receipts and disbursements by report period because she had misunderstood the requirements. Also, during the July Quarterly and the Pre-General report periods several disbursements greater than \$200 were not itemized. Further, the Audit staff noted that the Committee had not included unitemized disbursements on the summary pages, thus these disbursements were not reported (see Finding II.C.).

The Audit staff provided the Committee treasurer with a schedule of the itemization and other errors at the exit conference. She indicated that she would amend the disclosure reports as needed.

In the interim audit report, the audit staff recommended that the Committee file amended Schedules B itemizing the 81 disbursement noted above.

In response to the interim audit report, the Committee filed amended Schedules B which itemized all 81 of the previously unitemized disbursements noted above. These amendments materially corrected the public record.

C. MISSTATEMENT OF FINANCIAL ACTIVITY

Sections 434(b)(1), (2), and (4) of Title 2 of the United States Code state, in relevant part, that each report shall disclose the amount of cash on hand at the beginning of the reporting period, the total amount of all receipts, and the total amount of all disbursements for the period and calendar year.

The Audit staff's reconciliation of the Committee's reported activity to amounts reflected in its bank records from inception through December 31, 1996 revealed the following misstatements of financial activity.

- a) The Committee underreported its receipts by \$12,509. This amount consists primarily of an \$11,500 understatement of receipts from the Candidate and a failure to report \$263 in interest.
- b) The Committee underreported its disbursements by \$74,540. The bank reconciliation explained differences totaling \$75,162 as follows: a disbursement of \$2,071 was reported twice; one disbursement was underreported by \$12; and, disbursements totaling \$77,221 were not reported.

As a result of the above misstatements, ending cash on hand was overstated by \$62,031.

The Committee treasurer was provided a copy of the bank reconciliation that details the misstatements. The treasurer said she planned to file amended reports.

In the interim audit report, the audit staff recommended that the Committee file a comprehensive amended report for calendar year 1996 including amended Schedules A and B, and amended Summary and Detailed Summary Pages to correct the misstatements noted above.

In response to the interim audit report, the Committee filed amended Schedules A and B, and amended Summary and Detailed Summary Pages which corrected the public record with respect to misstatement of financial activity.

D. FAILURE TO ITEMIZE DEBTS AND OBLIGATIONS

Sections 434(b)(2)(G) and (3)(E) state, in relevant part, that each report shall disclose all loans made by or guaranteed by the candidate and the identification of each person who makes a loan to the Committee, together with the identification of any endorser or guarantor of such loan, and the date and amount or value of such loan.

The Audit staff identified loans received by the Committee from the Candidate totaling \$50,104. Of this amount, the Committee only reported \$1,150 on Schedule A and \$38,604 on Schedule C. The Committee also reported loan receipts from the candidate of \$38,604 on the Detailed Summary page.

In addition, the Audit staff identified loan repayments made by the Committee totaling \$8,200 during the audit period. The Committee itemized \$5,000 of this amount on Schedule B and none on Schedule C. The Committee was provided with a schedule containing the details of the loan activity.

In the interim audit report, the audit staff recommended that the Committee file a comprehensive amended report to include a Schedule C that shows each loan received from the Candidate, the amount that was paid on each loan, and the remaining balance of each loan.

In response to the interim audit report, the Committee filed an amended Schedule C which correctly shows the amount of loans received from the Candidate, the payments to date on these loans, and the remaining balance of the loans. This amendment materially corrects the public record with respect to loans from the Candidate.

UNIVERSITY OF MICHIGAN LIBRARY

FILED JUN 11 1998



FEDERAL ELECTION COMMISSION
Washington, DC 20463

June 17, 1998

Ms. Angie Draper, Treasurer
Darrel Ealum for Congress
521 Honeysuckle Drive
Albany, GA 31705

Dear Ms. Draper:

Attached please find the Final Audit Report on Darrel Ealum for Congress. The Commission approved the report on June 11, 1998.

The Commission approved Final Audit Report will be placed on the public record on June 18, 1998. Should you have any questions regarding the public release of the report, please contact the Commission's Press Office at (202) 694-1220 or toll-free at (800) 424-9530. Any questions you have related to matters covered during the audit or in the report should be directed to Terry O'Brien of the Audit Division at (202) 694-1200 or at the above toll free number.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert J. Costa".

Robert J. Costa
Assistant Staff Director
Audit Division

Attachment as stated

6-11-98 JNS VJS JS

CHRONOLOGY

DARREL EALUM FOR CONGRESS

Audit Fieldwork	6/19/97 - 6/26/97
Interim Audit Report to the Committee	9/8/97
Response Received to the Interim Audit Report	11/28/97
Final Audit Report Approved	6/11/98

99
76
52
21

995052119

